

Inquiry on Regulatory Treatment for Renewable Energy Resources Docket UE-100849

COMMENTS SUMMARY

Second Work Session

August 18, 2010



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ISSUES and COMMENTS

1) *Definitions.*

(a) What is “distributed generation” as applied to solar PV projects?

Avista supports the position that a solar PV system’s generating capacity should be measured based on its alternating current (AC) inverter output rather than its direct current (DC) output level.

On the other hand, in their joint comments, the Renewable Northwest Project, NW Energy Coalition, Climate Solutions, Cascade Chapter of the Sierra Club, and the Washington Environmental Council, henceforth referred to as the “**Joint Coalition**,” stated that they have no position as to whether the threshold for distributed generation should be measured in DC or AC but commented that AC would “perhaps” be a more accurate measure of the true generating capacity of PV resources. However, they feel that the issue should be clarified in the Commission’s rules.

In its *Reply to Comments* Obsidian Finance Group, LLC. (**Obsidian**) remarks that it agrees with **Avista** regarding the use of the system’s inverter output as the measurement of the PV system’s generating capacity. However, **Obsidian** did not agree regarding the comment made by the **Joint Coalition** that using DC would be “administratively simpler,” **Obsidian** supported the idea that the inverter would be limited to a maximum output of five megawatts (clipping) and therefore directly “satisfying the distributed generation requirements of “not more than five megawatts.”

Because of certain comments in this enquiry, **Energy Northwest** clarified the intention of its proposed language in its initial comments. Its language, **Energy Northwest** states, which would allow a PV project to qualify based on the project’s AC output limit, as determined by reference to the operating characteristics of the inverter.

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1) Definitions.

(b) What is an "integrated cluster of renewable resources"?

Avista believes that an integrated cluster, as it pertains to distributed generation, should be distinguished solely by the measurement of a cluster's capacity to deliver to the grid at a total interconnection level. No renewable generation project(s) should be recognized for distributed generation benefits where shared interconnection facilities transmit more than 5 MW to the grid.

In contrast, the **Joint Coalition** uses the Department of Commerce's (DOC) rule WAC 194-37-040(12) to reflect its understanding of an integrated cluster. In the rule the DOC discusses an ... "integrated cluster [having] a generating capacity of not more than five megawatts." In a footnote, the comments highlight wording similar to WAC 194-37-040(16) which limits an integrated cluster to being owned or controlled by the same developer ("entity" in the rule) that feed into the same substation.

In its *Reply* **Obsidian** finds fault in the **Joint Coalition**'s suggestion that the Commission adopt a definition of integrated cluster similar to the DOC definition. **Obsidian** asserts that the use of the DOC definition fails to address an ambiguity inherent in the rule. In addition, **Obsidian** also does not agree with **Avista**'s statement that "No renewable generation project(s) should be recognized for distributed generation benefits where shared interconnection facilities transmit more than 5 MW to the grid." It is **Obsidian**'s position that this suggestion fails to address the reality of development in rural areas. The particular substation into which a facility feeds is not an appropriate factor to consider when the substation is owned by the local utility. **Obsidian** suggests that the Commission adopt a rule that defines an "integrated cluster of renewable resources" as "two or more projects that are (a) developed on the same or adjacent parcels that share a common property line, and (b) are owned or controlled by the same entity."

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2) Determination of Prudence. Does the Renewable Portfolio Standard (RPS) in I-937 supersede the “need requirement” used by the Commission for its determination of prudence? Why should the Commission treat the acquisition of a renewable resource different from the acquisition of a gas-fired plant when considering “need”?

Avista states that I-937 adds a new component of *need* as applied under Title 80 RCW stating that I-397 created a third need category for use in the prudence determination of renewable resources. Since I-937 does not apply to other non-renewable generation assets, therefore **Avista** believes the “I-937 need concept” also does not apply to other non-renewable generation assets and should not affect how the commission reviews the acquisition of those resources on a stand-alone basis.

In contrast, **PacifiCorp** reasons that I-937 does not supersede the need requirement but rather supports the Commission’s “strong consideration” of the “need requirement” used to determine prudence. The company believes it is appropriate to consider the needs arising out of the renewable portfolio standard (RPS) when considering the prudence of a resource but that when doing so, the Commission should provided flexibility in its prudence test to adapt to acquisitions of renewables in compliance with the RPS.

On the other hand **PSE** believes that RCW 19.285 expanded the definition of need to include an additional need. This “renewable resource need” adds two additional resource dimensions: (a) renewable resources to meet the RPS as well as the those resources that meet the State’s policy favoring renewable and low carbon sources of energy to meet green house gas reduction targets. (b) Resources necessary to cost-effectively and reliably integrate renewables.

Comments by the Industrial Customers of Northwest Utilities (**ICNU**) argue that the *need requirement* is modified, but not superseded. The strict statutory requirements in the RPS, **ICNU** contends, simplify the evaluation of prudence by the Commission of certain types of renewable resources by imposing specific requirements e.g., a specific amount of renewable resources be used to serve load. In contrast, **ICNU** states that there are other “resource need” issues that are not superseded [or modified] by the RPS including the determination by the utility of how much renewable resources are needed to meet the statutory obligation. That is, the matching of estimated loads to resource acquisitions and integration services or resources.

Finally, **ICNU** emphasized that utilities must ensure acquired RPS resources meet actual resource needs, be used and useful, and provide service that is fair, just and reasonable. Finally, **ICNU** cites an Oregon Commission decision that states “The [prudence] standard to be applied has not been ‘lowered’ to foster the acquisition of renewable resources.”

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In its comments, the **Joint Coalition** argues that “[u]tilities now have a new regulatory source of ‘need,’ in addition to a load-based ‘need,’” They suggest that the Commission may acknowledge that compliance with RPS requirements is an appropriate factor in resource acquisitions while highlighting that traditional prudence analysis remains “an appropriate framework.” Acknowledging that the need to acquire generating resources or power contracts is dependent on a broad standard of reasonableness, they believe the Commission should explicitly recognize that meeting RPS targets is a need in the context of a prudence review.

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3) **Integration of Renewables.** Will future acquisition of non-renewable resources that support the integration of renewable resources encounter the same demonstration of need issue? Discuss what new “litmus” tests may be necessary to evaluate the prudence of renewable integration generating resources and why the current tests may not be applicable.

Avista believes that the use of non-renewable assets for the integration of renewables will increase as renewable generation in a balancing authority increases. The company feels that utilities should demonstrate that the non-renewable asset is integral to (1) maintaining system reliability or (2) optimizing the operational value of the intermittent renewable resource. Consist with this comment; **PSE** states that resources necessary to cost-effectively and reliably integrate renewable resources into the power system is an additional resource need that is prudent in complying with the new renewable energy target requirements.

Echoing the consensus of the above comments, **ICNU** agrees that utilities will be required to acquire new resources and/or change the utilization of current resources to integrate intermittent renewable resources. It sees no reason to assume that any aspect of the Commission’s prudence analysis would not apply to integration.

In contrast, the **Joint Coalition** cautions that a one-size-fits-all litmus test is inappropriate for the review of integrating resources. They recommend that the Commission signal that prudence will depend upon appropriately analyzed integration needs, exhaustion of reasonably available integration alternatives and the active participation in the development of lower-cost, market-based integration methods. In addition, the Coalition warns that before any integration resource be considered prudent, utilities should be required to demonstrate that they have fully engaged with less costly integration strategies which it develops more completely within its comments.

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4) Increased Certainty of Recovery of Costs of Renewables. Should the Commission take action to provide utilities with increased certainty for recovery of costs associated with renewable resources before they are constructed or acquired? What administrative actions should the Commission take to provide such increased certainty?

Avista responded that in order to provide increased certainty for the recovery of costs the Commission should provide guidance through rules. The rules would explain under what conditions a utility may acquire qualifying renewable resource sites or resources ahead of I-937 threshold dates. The company believes that flexibility in resource acquisition is essential since requiring the necessary steps to acquire renewable resources into a short timeframe may provide suppliers with negotiating leverage, transmission interconnection queue congestion, and scarcity of construction resources. **Avista** believes the lack of flexibility would result would be delays and increased costs. At the minimum, it states, the Commission should interpret the language of RCW 19.285.060(4) [provision of incentives] to affirm that utilities may meet their RPS goals earlier than the minimums dictated by the law. The company supports the drafting of rules in that regard.

PacifiCorp believes it would be beneficial to provide utilities with increased certainty of recovery of costs before they are constructed and acquired. The company proposes that, at the time a company files for the deferral of costs associated with long-term financial commitments under RCW 80.80.060(6), the Commission should allow for a prudence determination which it believes would provide increased certainty of cost recovery. Or in an alternative to a prudence determination, **PacifiCorp** suggests an approval of the acquisition of a long-term financial commitment would provide an increased certainty of the recovery of costs. In addition the Commission could provide an indication of prudence associated with the costs that may be deferred for later recovery.

In a similar light, **PSE** suggests the use of an *ex ante* prudence review. The *ex ante* prudence review would pre-approve a decision to acquire a renewable resource ahead of target dates or that exceeds the renewable requirements. For multi-year/multi-phase projects **PSE** proposes the utility return to the Commission for *ex ante* prudence determinations as it moves forward to the next phases of the projects.

In contrast, **ICNU** concludes that the Commission should not provide utilities with any increased certainty for the recovery of the costs associated with renewable resources before they are constructed or acquired. **ICNU** asserts that the RPS provides no rate certainty in the acquisition of renewable resources. It believes that renewable resources are no different than the utilities' need to acquire resources to meet non-renewable demands such as energy, capacity or changing loads.

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ICNU asserts increased certainty will only serve to protect utilities from imprudent actions, increase costs or reduce quality of renewable acquisitions.

Similarly, the **Joint Coalition** does not support a project-specific pre-approval mechanism. However they recommend two options instead of pre-approval. The first, the IRP action plan acknowledgment approach where the utility identifies resource activities the utility intends to undertake over the next two to four years. Although the **Joint Coalition** concedes that the option does not address cost-recovery for any specific resource, but does provide utilities with increased certainty that the regulatory body approves of its general resource acquisition approach. In connection to this option the **Joint Coalition** suggests a more public and independent review of the RFP process for major resource acquisitions.

A second option would be what the **Joint Coalition** calls an I-937 Implementation Plan. They suggest a plan that is similar to the Oregon RPS model. The utility would file plans periodically for Commission review and acknowledgement which, the coalition believes, would provide greater certainty about their general approach.

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5) Consideration of Costs for Pre-approved Facilities. Assuming the Commission pre-approves an acquisition of a site for a renewable resource like a wind site, to what extent would the Commission be limited in its review of the costs at a later time?

Avista feels that costs and performance generally should comply with the initial filing that resulted in the assumed pre-approval. To the extent that conditions substantially change from the pre-approval filing the utility should be responsible to support the reasonableness of the changes or other modifications. **Avista** believes the differences should be subject to prudence review.

In the same way, **PacifiCorp** believes the pre-approval of a project does not equate to preapproval to all costs associated with the project. The Commission would still have authority to review costs of the completed project since, as **PacifiCorp** states, a company still has an obligation to manage a project and ensure all costs incurred are prudent and responsible.

PSE was consistent with the other utilities stating that any review by the Commission after pre-approval would be limited to changes to the resource acquisition from the original filing.

Notwithstanding **ICNU's** reasserted opposition to pre-approval, **ICNU** believes that any pre-approval should be very limited in scope and should not include any price, need, or other prudence related issues. **ICNU** argues that pre-approval should only provide a rebuttable assumption [of prudence] that parties can dispute in a subsequent proceeding. As with **ICNU**, the **Joint Coalition**, in its comments to this question, reasserts its opposition to pre-approval.

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6) **Statutory Barrier.** Is the early acquisition of RPS resources limited by the Washington statutory provision (RCW 80.04.250) requiring an asset be used and useful to earn a return?

Avista holds the view that early acquisition is not limited by statute. It believes the Commission has the ability to flexibly apply the concept of used and useful in the context of I-937. **Avista** asserts that the application of the used and useful principle is flexible enough allowing acquisition of resources in advance of need due to difficulties in “precisely timing” resource acquisitions to coincide with need.

PacifiCorp’s comments reflect the view that advance compliance of the RPS obligation date should not be considered early because the obligation date represents a “snapshot in time” whereas the utility’s compliance obligation changes over time as load changes.

Although **PSE** agrees with the other utilities, it believes that the used and useful principle does not create a statutory barrier. However taking a different approach, PSE cites a prior Commission order setting a used and useful “standard” of *production of power to meet load within the State of Washington*. **PSE** believes RPS resources fit this standard, however if the Commission concludes that it does not, it suggests that the company with other stakeholders and the Commission work to provide clarity in the form of statutory or rule change.

The **Joint Coalition** believes that the used and useful standard does not prevent recovery of costs for renewable generation resources acquired in advance of RPS target dates. As with **PSE**, the **Joint Coalition** offers a test for including a resource in rates. Also citing a prior Commission order, the **Joint Coalition** states “the test is not whether the resource is ‘needed, deliverable, and least-cost, but rather whether it provided quantifiable direct or indirect benefits to Washington commensurate with its proportional cost.’” The coalition asserts that there is no question that a renewable generating facility that is actually used to provide service to ratepayers is used and useful, regardless of if it is needed for RPS compliance. They further argue that even if the resource is not needed to meet load in the immediate term, its power can be sold with the proceeds used to lower rates therefore providing a benefit to Washington ratepayers. The **Joint Coalition** stresses that any facility that qualifies for the Washington RPS is used and useful when its bundled power and/or Renewable Energy Credits (RECs) are needed for the utility to comply with state law and avoid penalties. Finally, its comments emphasize that prudence and used and useful are separate regulatory tests.

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7) **Changing Technology.** Does a company that acquires renewable resources early, run the risk of missing future technological changes that may have the potential to reduce the costs of the new resources if acquired at a later time?

Although **Avista** agrees that there is a potential to reduce the costs of new resources if acquired at a later time, **Avista** cautions the Commission that it should not limit a utility's acquisition plan based on the mere possibility of future technological changes that are not known at the time.

PacifiCorp, however, does not agree, stating that the laws of macro economics make no guarantee that the benefits of speculative future technological changes will not offset potential future higher demand. **PacifiCorp** holds that it is in the best interest of customers to have a utility procure renewable resources in advance of compliance dates.

In their comments, the **Joint Coalition** discusses that no one can accurately predict how the interplay between technological improvements, demands, and other price factors will affect future resource options. They believe that the only thing that a company can do at a given moment is make a reasonable decision based on available information. However, keeping in mind its advice regarding predictions, the **Joint Coalition** offers its own prediction of costs. The Coalition believes that as RPS dates in various states come closer, demand for renewable resources and sites will increase, countering any downward cost trend created by technological improvements. Early acquisition can be prudent, because doing so recognizes current economic conditions that appear to be favorable.

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8) **External Incentives.** To what extent should external incentives that are short-term in nature be a factor in Commission approval of acquisition of renewable resources in advance of RPS requirements (e.g., Production Tax Credits, Investment Tax Credits and Treasury Grants)? Will the subsidized costs attributed to external incentives compensate ratepayers for early recovery in rates?

Avista believes that incentives in general reflect society's desires to promote a specific policy. It believes that the Commission should provide rules that allow utilities to acquire renewable generation ahead of need, including the benefits of incentives that might be available. **Avista** suggests that utilities proposing advance acquisition should demonstrate the financial impact of the incentive, and how early acquisition is expected to benefit customers over the life of the asset based upon what the utility knows about the availability of incentives at the time it decides to acquire the resource.

PacifiCorp discusses that short-term incentives can be uncertain in nature and that they should be given due consideration in the Commission's prudence review. Reiterating that it is in the customers' best interest that a utility acquire renewable resources opportunistically because such incentives cannot be guaranteed to continue. Such action by a utility, **PacifiCorp** believes, limits risk to customers.

PSE points out in its comments that short-term external incentives provide strong economic impetus to acquire renewables earlier rather than later. Future ratepayers, they say, will benefit from early acquisition.

In their comments, the **Joint Coalition** questions whether external incentives will completely offset earlier recovery of the renewable in rates. Though the coalition acknowledges that taking advantage of significant state and federal incentives will lower costs to ratepayers in the range of 15% to 20%. The **Joint Coalition** cautions the Commission from addressing financial incentives in rules because of their short-term nature and because they change frequently. However they say the Commission should signal that incentives can be an appropriate factor in a decision to acquire a renewable resource.

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9) **Additional Flexibility.** Does the Commission presently have authority to consider a more “flexible” or “systematic approach” for assessing renewable resources? If so, what specific mechanism is needed?

Avista believes that the Commission does have authority to consider a more flexible or systematic approach for assessing renewable resources due to the Commission’s broad enabling authority that allows it to establish and revise policy through the adoption of rules. Its recommendations are detailed in its other responses.

PacifiCorp cites its response to the Commission’s question regarding the determination of Prudence in Question (2) above.

PSE believes the Commission does have authority to consider a more flexible or systematic approach but cites RCW 19.285 as its support. **PSE** believes that RCW 19.285 created a need and an obligation that did not exist prior. RCW 19.285 creates two additional resource dimensions (a) renewable resources and (b) resources necessary to integrate renewable resources.

ICNU on the other hand agrees that the Commission has significant flexibility and says that flexibility allows the Commission to use its existing framework to manage new innovations. That is why **ICNU** continues in this comment to advocate retention of the traditional prudence analysis. However, **ICNU** concedes that more interaction between utilities, stakeholders, and the Commission could improve planning and cost-recovery for new renewables, including an RPS implementation plan.

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10) Do Rules Conflict with Statute? Does WAC 480-109-020 (1) or (2) conflict with provisions in RCW 19.285.040(2)(e)? Discuss barriers to a company's use of RECs caused by the statutory timing of their creation?

Avista states that it believes that the rules do not conflict with statute. **Avista** believes the statute and the rules both provide for the targets for meeting load with Renewable resources. However **Avista** clarifies that it believes utilities should have the flexibility to bring resources or REC purchases online at any point in time as long as the annual requirement is met.

In contrast, **PacifiCorp** believes the Commission's rule does conflict with the provisions in RCW 19.285.040. **PacifiCorp** highlights the provision of the WAC that states "...provided that [RECs] were acquired by January 1 of the target year." The company argues that this requirement in the rule essentially eliminates the use of generation during the target year and subsequent year for RPS compliance whereas RCW 19.285.040 allows utilities a full three-year generation period to meet the RPS requirements. **PacifiCorp** urges the Commission to amend WAC 480-109-020 (2) by removing the restriction of acquiring RECs by January 1 of the target year.

Agreeing with **PacifiCorp**, **PSE** argues the same provision of the rule (WAC 480-109-020) restricts a company's ability to use RECs. **PSE** believes that nothing in RCW 19.285.040(2)(e) would prohibit a utility from using RECs acquired after the first day (January 1) of the target year to meet a goal during the target year.

ICNU also believes that the Commission's rules regarding RECs appear to be inconsistent with, and more limited than, the RPS's directions regarding the use of the RECs. **ICNU** uses the same line of reasoning used by **PSE** and **PacifiCorp** in that the statute does not require the RECs need to be acquired by any specific date. **ICNU** urges the Commission not to use administrative rules to impose any unnecessary limitations, because the statute does not prevent utilities from acquiring or planning to acquire RECs in the year following a target year. Utilities, they state, should be provided with the flexibility provided under the statute. **ICNU** makes the observation that flexibility may be important to allow utilities to meet their RPS needs which may be difficult to predict with exact precision for each reporting period because utilities' loads shift and renewable resources have variable output.

In their comment, the **Joint Coalition** takes the contrary position stating that the rules are faithful to the statute. Citing from the I-937 rulemaking, the coalition states that a detailed legal analysis of this issue took place at that time. The analysis, they say, was robust and sound. They believe the plain meaning of the words in the statute of "use" or "acquire" eligible renewable resources and/or RECs by January 1 cannot be modified by rule. While the utility is permitted to rely on subsequent year RECs pursuant to the statute, the **Joint Coalition** believes the only way to give meaning to that

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provision and all of the other provisions of the statute is to permit the utility to rely on future RECs that are acquired by January 1 of the target year.

In its reply, Avista respectfully disagrees with the **Joint Coalition**'s reading of the law and proposes a revised WAC 480-109-020(2)

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11) WREGIS Agent. What agency should be responsible for oversight of registration of renewable resources and confirmation of eligibility in the Western Renewable Energy Generation Information System? Discuss the duties and responsibilities of a WREGIS Agent.

Avista suggested that a member of the Commission Staff be assigned as the WREGIS Agent to ensure that RECs submitted as eligible for compliance with a renewable resource acquisition target actually meet the eligibility requirements.

PacifiCorp also recommends the Commission assign a member of the Commission staff as the "WREGIS Agent". It believes that the duties of the Washington WREGIS Agent are not burdensome and include registering in WREGIS as a "State Program Administrator", setting up a state-specific Washington RPS program in WREGIS, and defining Washington eligibility requirements and communicate them to utilities or generators so facilities can be registered for the Washington RPS program. The staff member would also review, verify and approve facilities as eligible or not eligible with the Washington RPS program. Finally, as needed, the agent would monitor and utilize WREGIS to track compliance with the Washington RPS program requirements and make recommendations.

PSE highlighted that currently WREGIS is the selected entity to verify RECS in a Department of Commerce tracking system.

The **Joint Coalition** suggests that the Department of Commerce is the appropriate state agency responsible for the oversight of registration of renewable resources and confirmation of eligibility. With the Department of Commerce's responsibility for the selection of the tracking system and its charge of developing and disseminating energy information and analysis for Washington State, the coalition believes they are the logical choice. The **Joint Coalition** emphasizes that the role of the WREGIS Agent is intended to be policy neutral and not determine whether its renewable energy certificates are eligible for particular regulatory programs such as I-937.

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12) REC Banking. Does the current limited REC banking requirement impede renewable acquisition? How would unlimited banking of RECs remove barriers to the acquisition of RPS resources?

Avista does not feel that the present REC banking provisions impedes the acquisition of new renewable resources. However, **Avista** believes unlimited banking might enable a utility to better optimize the value of a renewable resource acquired in advance of need.

PacifiCorp, on the other hand, feels the current requirement does impede renewable acquisition by creating an artificial "expiration date." Utilities may only utilize RECs for the Washington RPS program where they are associated with renewable energy generation from the prior year, target year or subsequent year. This requirement, **PacifiCorp** feels, limits renewable acquisition by arbitrarily slowing the pace of utility investment in renewable energy to align with annual RPS mandates, rather than allowing utilities to invest early and maximize benefit for customers.

ICNU recommends that the Commission request the legislature to amend the limited three year statutory banking provision. According to **ICNU**, unlimited banking will allow utilities to use extra RECs generated to meet future compliance needs, and could potentially reduce the "alleged" problem associated with the stepped "lumpiness" of the RPS requirements and reduce costs.

The **Joint Coalition** feels that the current REC banking provision does not impede renewable acquisition. The coalition believes that the REC provision allows utilities significant flexibility in meeting the renewable standards. The **Joint Coalition** suggests, in support of their position, that a utility can choose whether or not to acquire RECs – there is no requirement to do so. And if a utility opts to pursue RECs, it has a three-year timeframe in which to do so.

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13) Incentives. Should the Commission provide incentives, financial or otherwise, for utilities that exceed their RPS targets or meet them early? If financial incentives were provided, what incentive design would be appropriate and would the incentives be subject to any constraints? What would be examples of non-financial incentives?

Avista believes additional financial incentives are not necessary at this time. However **Avista** believes that it is essential that the Commission address early acquisition with new rules.

PacifiCorp also feels it is not necessary for the Commission to provide incentives, financial or otherwise, for utilities to exceed their RPS targets or meet them early unless there is a stated policy objective. However if there is a policy objective such as a percentage of renewable resources in a utility's portfolio be from a certain resource type, **PacifiCorp** advocates that the Commission consider higher returns on equity where such resource types are owned by a utility or an added cost recovery factor where such resource types are owned by third parties.

Describing a non-financial incentive, **PSE** believes the Commission should provide incentives to meeting renewable targets. The non-financial incentive example provided by **PSE** is an *ex ante* prudence determination (described in response to Question 4 above).

ICNU strongly opposes providing the utilities with financial or other incentives to exceed their RPS targets or meet them early. They state that there is no reason to assume that the utilities will be unable to meet their RPS requirements without incentives. Also, **ICNU** believes that additional or early renewable acquisition should be discouraged because it will unnecessarily increase rates.

The **Joint Coalition** suggests both a non-financial and a financial incentive mechanism. The non-financial mirrors its response to Question 4 regarding providing more certainty regarding cost recovery. Financially, the Coalition recommends the Commission consider a rate of return adder. The adder, according to the **Joint Coalition**, would encourage meeting energy demand with new renewable resources in a mechanism similar to that in RCW 80.28.025.

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14) Impact on Ratepayers. What would be the impact on ratepayers of providing incentives to utilities to exceed their RPS targets or meet them early?

With the costs of currently-available renewable resources which, **Avista** says significantly exceeds its embedded resource cost, and along with lower short-term wholesale cost of power, **Avista** believes the early acquisition and/or installation of new renewable resources would increase customer rates.

PacifiCorp, however, feels that it is in the best interest of customers to have a utility procure renewable resources opportunistically and in advance of compliance dates. **PacifiCorp** states that the impact to customers is a reduction in risk and the crediting of revenues associated with any off-system power sales and/or renewable energy credit sales when not needed for compliance purposes.

Also citing a ratepayer benefit, **PSE** states that ratepayers may receive the benefits of: (1) greater cost stability to energy portfolios (2) portfolio diversity and (3) potential protection against future greenhouse gas cost risks.

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15) Consideration of Externalities. To what extent may, or should, the Commission require a utility to consider “positive externalities” in resource acquisition, such as impact on local economy?

Avista believes that the Commission should not require any specific consideration of societal values beyond those accruing directly to the ratepayer. To the extent externalities are reflected in the form of tax credits and/or other measures to encourage certain actions, they should be considered in the decision-making process.

PacifiCorp holds that consideration of externalities should not be a factor in the consideration of resource acquisitions saying it bases its acquisitions on the integrated resource planning process which results in the best resource acquisitions for the system and **PacifiCorp**'s customers.

Echoing reliance on the integrated resource planning process, **PSE** states that it considers potential carbon emissions and a variety of other externalities in its Integrated Resource Planning and Resource Acquisition. **PSE** further emphasizes RCW 19.285 already contains a list of externalities that should be considered, which it includes in its comments.

ADAGE, in its only commented, felt strongly the Commission should require utilities to consider “positive externalities” in resource acquisition. As with **PSE**, **ADAGE** lists the “positive externalities” specified in RCW 19.285 such as stable electricity prices, clean air and water and creation of jobs. Therefore, **ADAGE** argues, the Commission already has the authority to consider the impact to the local and state economy when evaluating resource acquisitions. The Commission should make it clear that such impacts should be considered in a utility’s resource acquisition decisions.

The **Joint Coalition** recommends that the Commission consider adopting a climate change and carbon planning requirement. The **Joint Coalition** urges the Commission to require utilities to develop integrated resource plans that meet adopted state and federal carbon reduction targets. In the alternative, the **Joint Coalition** asks the Commission to require utilities to develop (1) a plan on meeting state and federal carbon reduction targets and (2) scenarios for complying with the likely future regulation of greenhouse gas emissions within the integrated resource plan.

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16) Hydroelectric Generation. How does the restrictive treatment of hydroelectric generation limit clean and low-cost renewable energy options to ratepayers? Does the restriction give companies a sufficient incentive to finance efficiency improvements in older hydroelectric projects?

Avista remarks that the present limit on remarketing RECs from hydroelectric generation facilities potentially limits efficient upgrades to hydroelectric generation assets. The company provided two instances where limited upgrades could occur because of the inability to remarket surplus RECs; (1) projects owned by a federal agency since there would be no marketable RECs generated by the project and (2) smaller utilities with a large hydroelectric generation facility where it could not remarket surplus RECs for the benefit of its ratepayers.

Similarly, **PacifiCorp** argues that the current restriction limiting the eligibility of incremental hydroelectric generation upgrades for older hydroelectric generation facilities is a disincentive to invest in facility upgrades. **PacifiCorp** observes that Oregon and California accept as an eligible renewable resource hydroelectric generation.

PSE believes that hydroelectric generation continues to be an attractive resource alternative in part because it is carbon free. To the extent that hydroelectric efficiency improvements qualify as renewables, the economics of such improvements become even more attractive.

Supporting upgrades to hydroelectric generation, **ICNU** believes at a minimum, the Commission should recommend to the legislature that efficiency upgrades at all hydro facilities should be counted for meeting the Washington RPS requirements.

The **Joint Coalition** believes that in order for Washington's renewable energy standard to be meaningful, it needed to be focused on diversifying our renewable base. They believe that the definition of eligible renewable resources in I-937 provides sufficient incentive for utilities to finance efficiency improvements in existing hydropower facilities. The **Joint Coalition** points out that in I-937, hydro efficiency upgrades are included at existing facilities and those upgrades count towards compliance of the renewable energy standards. The law, they believe, provides sufficient additional incentive to finance efficiency improvements to existing hydropower facilities.

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17) Allowing Expanded Area. If the geographical area for qualifying energy was expanded to areas outside the Pacific Northwest, how would the increase in eligible resources available for RPS compliance benefit ratepayers? To what extent would the expansion of the geographical “footprint” allow for additional delivery flexibility?

Avista supports the expansion of the geographical footprint for eligible renewable resources. **Avista** believes it would benefit ratepayers, especially in situations where ownership of the facility was not required. Expansion, the company says, would allow the trading of RECs from various locations and increase market liquidity. **Avista** cites resulting lower prices and more efficient use of capital and scarce resources. **Avista** believes a legislative change to expand the eligible resources and geographic footprint area would lower costs for Washington ratepayers.

PacifiCorp also believes expanding the geographical area for qualifying energy outside the Pacific Northwest would benefit customers. Not only would an expanded area increase the number of eligible resources available for RPS compliance but it would help assure a broad source of reasonable least-cost alternatives. **PacifiCorp** thinks it is important to consider the impact renewable portfolio standards in other states may have on Washington customers.

PSE suggests a WECC-wide geographical area, consistent with the requirements in other western states. It believes it would create more efficient markets, which would benefit ratepayers.

The comments of **ICNU** are consistent with the above comments stating that the geographic area for qualifying renewable resources should be expanded beyond the Pacific Northwest to benefit ratepayers and reduce the costs associated with RPS compliance. **ICNU** believes that expansion of the geographic area will allow a wider array of renewable potential resources to be used to meet the RPS requirements, many, it asserts, may be at significantly lower costs than those located in Washington or the Pacific Northwest.

In contrast, the **Joint Coalition** believes that the geographical restriction that was established in I-937 benefits Washington and the region by promoting local economic development. In addition, the **Coalition** reminds that the Legislature would need to amend I-937 in order for the geographic region to be expanded.

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18) Decommissioning Requirements. Discuss the statutory provisions that recognize the Commission's primacy over the decommissioning of renewable resources held by a regulated utility. To what extent are counties providing for facility decommissioning requirements for regulated utilities and can the companies quantify the excess duplicative costs?

PacifiCorp comments that each county in Washington appears to address decommissioning requirements on a county specific basis and it is, in its opinion, uncertain how any given county will treat decommissioning requirements for each renewable resource they permit.

PSE does not believe this issue is a problem. It understands that counties and landowners have legitimate concerns regarding decommissioning and have found counties to be reasonable in their decommissioning requirements.

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19) Cost Cap for Renewables. Does the current cost cap provided in RCW 19.285.050 Resource Costs, provide effective protection for ratepayers? How specifically should the Commission implement this cost cap?

Avista believes since it is difficult to anticipate how future market conditions might impact the costs of renewable resources and RECs. There may be a scenario where the cost cap is deficient. However, **Avista** feels it would like to reserve the option to comment on this matter at a later date, as may be necessary.

PacifiCorp suggests that the Commission rely on a consistent methodology for the calculation of the cost cap such as calculation of incremental costs as well as the applicable annual revenue requirement. The company points out that Oregon's RPS includes a similar customer protection provision and the Oregon Commission has developed extensive rules to establish the calculation of incremental costs and the applicable revenue requirement. To promote regional conformity and reporting parity, **PacifiCorp** suggests that the Commission consider the Oregon approach by adopting similar methodologies and reporting formats.

ICNU finds that the RPS "cost cap" is essentially an illusory protection because it does not provide any effective protection for ratepayers. **ICNU** suggests that the Commission recommend that the Legislature revise the cost cap to provide meaningful protection for ratepayers. In its comments **ICNU** provides a detailed listing of the attributes **ICNU** believes are necessary for the protection of ratepayers.

The **Joint Coalition** believes however that the cost cap does provide effective protection for ratepayers. The **Coalition** highlights that the cost cap provides utilities with the option of meeting a lesser renewable energy standard if their expenditures reach the cost cap. But the statute they say, is clear that "a utility may elect to invest more than this amount."

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20) *Costs and Benefits of Voluntary Green Power Programs.* How can ratepayers that participate in the voluntary green power program participate in the benefits of the program?

Avista discusses that its interactions with those who participate in the voluntary green power program indicate that they already derive intrinsic personal benefits from doing so; they believe they are making a contribution to improving environmental and societal conditions. Therefore, **Avista** does not believe any additional efforts are warranted here.

The **Joint Coalition** remark that the removal of price volatility is a significant benefit of investing in renewable energy resources. They believe the lack of price volatility is a benefit that could be allocated to green power program participants in accordance with the level of their participation. The **Joint Coalition** also support utilities developing voluntary programs involving the long term contractual purchase or ownership of renewable energy generation that result in a return on investment for the participants.

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21) Other Issues. Comment on any other issue relevant to this inquiry that is not covered above.

- a) Dry Hole Risk
- b) Environmental Attributes Associated with PURPA Resources
- c) Biomass Renewables
- d) RFP process for renewable generation from IPP

21a) Dry Hole Risk

Avista believes that renewable project development presents a number of challenges that differ from non-renewable project development. **Avista** discusses the likelihood that a utility will work on a few “dry holes.” That is, projects (specifically wind projects) that do not reach fruition. The company urges the Commission to clarify that cost recovery is allowed for prudently incurred costs associated with "dry hole" sites. The Commission should define renewable energy project development costs that are eligible for recovery..

21b) Environmental Attributes Associated with PURPA Resources

Avista identified an issue regarding PURPA required purchases from qualified facilities and the related environmental attributes from PURPA resources. **Avista** asks the Commission to provide clarity on this issue, both for existing and future contracts by ruling that the environmental attributes from PURPA resources are for the benefit of the customers of the purchasing utility.

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21c) Biomass Renewables

ICNU notes that the RPS includes restrictive limitations on the types of biomass facilities that qualify as renewable resources such as the vintage date for biomass facilities which it believes is unnecessarily narrow. **ICNU** also supports the expansion of the RPS to include “black liquor” generation facilities.

Dan DeRuyter, of **George DeRuyter and sons Dairy** comments that due to current pricing he is getting paid about 6.3 cents per kilowatt hour, and that is enough to pay the bills but not for servicing debt. Other areas offer more per kilowatt hour but the local power company’s wheeling charge would negate the profit and the economics for selling onto the grid. He sees no future under current pricing for the bio mass industry in Washington to survive.

21d) RFP process for renewable generation from IPP

The **NIPPC** would like to utilize this inquiry to promote a better climate for IPP’s participation in the bidding to supply generation to meet their renewable targets. Specifically, **NIPPC** states that it would like to see an effort to make a more transparent and unbiased RFP process by utilities.

Specific issues that the **NIPPC** would like to see addressed include: (1) When a non-utility generator(s) is chosen through a competitive procurement process, the utility’s rate recovery for the negotiated PPA should be treated as “per se prudent.” (2) The Commission should remove the imputed debt issue as a “deal killer” in the competitive procurement process and require the utility to obtain an advisory opinion from a ratings agency to substantiate the utilities analysis of any bids. (3) The development of a set of metrics defining “successful” PPA’s (i.e., contracts with “successful” PPA’s may earn at a higher rate of return within a utilities authorized rate of return band) and (4) a disincentive should be established for utilities to pursue greenfield self-builds outside the competitive procurement process involving IPPs.

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