

## Renewable Northwest Project

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### Members

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Renewable Northwest Project

May 11, 2005

Carole J. Washburn  
Executive Secretary  
Washington Utilities and Transportation Commission  
1300 South Evergreen Park Drive S.W.  
P.O. Box 47250  
Olympia, WA 98504

**RE: Comments of the Renewable Northwest Project in Docket Nos. UE-030311/UE-030423.**

Dear Ms. Washburn:

The Renewable Northwest Project (RNP) is pleased to submit these preliminary comments on the draft rules in Docket Nos. UE-030311 and UE-030423. RNP is a regional non-profit organization that promotes solar, wind, and geothermal resources in the four Northwestern states. Our members are a unique combination of environmental and consumer organizations, as well as businesses and manufacturers that develop renewable energy equipment and projects. These different groups are united in the belief that renewable energy makes both economic and environmental sense for the State of Washington and the region.

RNP staff has participated in IRP and procurement processes with utilities throughout the Northwest. The issues raised by these dockets are of critical importance to RNP's goal of expanding the development of clean, renewable energy throughout the Pacific Northwest.

### Docket No. UE-030311: Integrated Resource Planning

Overall, we believe the proposed rules are an improvement over the current least cost planning rules. However, the draft rules still lack sufficient specificity, in our view. Included below are suggestions for additional changes to WAC 480-100-238.

### **Goals of IRP**

First, we support the change of the name of the rules to Integrated Resource Planning. The term "IRP" better reflects a process that is focused more broadly than the financial costs of resources. Along with the new name, we suggest adding a statement by the Commission of the goals or objectives of integrated resource planning.<sup>1</sup> In our view, the goal of an IRP is to ensure

<sup>1</sup> See, for example, the Montana Default Electric Supplier Procurement Guidelines, ARM 38.5.8203-8204.

consideration of a diverse, stably priced, environmentally responsible portfolio of generating and demand-side management resources to serve customers.

### **Definition of “lowest reasonable cost”**

We support the inclusion of “lowest reasonable cost” instead of “least cost” in the new rules. The proposed definition of “lowest reasonable cost” captures some of the factors that should be considered in determining the cost of a utility portfolio. However, we believe there are additional considerations that should be included in the definition.

First, the lowest reasonable cost should include not just the direct costs of resources, but also the external costs of all resources, including public health and environmental costs. External costs of energy resources should be also be factored into the IRP analysis called for in Section 3(d) of the rules, which requires a comparative evaluation of resources “based on a consistent method for calculating cost-effectiveness.” We believe the new IRP rules should make explicit that health and environmental costs of energy resources must be included in cost-effectiveness calculations, as well as the final assessment of whether a portfolio of resources is the lowest reasonable cost.

In addition, all resources have costs and benefits. The benefits to the portfolio of different generating and demand-side resources should also be factored into the determination of cost. Benefits may include such things as diversity, rate stability, environmental protection, and lowest risk. Finally, there are additional risks that should be included in the determination of the lowest reasonable cost. “Market-volatility risks” presumably include the risks of fuel price and fuel availability. The risk of future environmental regulation should also be a consideration in the evaluation of “lowest reasonable cost.”

### **Public participation**

In WAC 480-100-238 (5), the new rules direct utilities to outline the extent of public participation in the IRP in a work plan. We support this change but we suggest that the new rules should be even more explicit that public participation is essential to the development of an effective IRP. We would like to see this direction expressed at the outset of the new rules, perhaps in a statement of IRP goals and objectives, as suggested above.

### **Consideration of “technically feasible generating technologies”**

The proposed rules eliminate the specific list of generating resources to consider in an IRP in 3(c). We believe the rules should retain direction to utilities as to the kinds of resources that should be considered in an IRP, including renewable resources. The rules do not have to be exhaustive, but the direction to assess “technically feasible generating technologies” is not sufficient on its own.

### **Climate Change Regulatory Risk**

We believe climate change poses a real and substantial threat to Washington. Electricity generation contributes substantially to global warming pollution, and it is therefore appropriate for utilities to directly confront this issue in IRPs and resource solicitations. The IRP rules should be further amended to require utilities (1) to evaluate the impact of climate change on customers and (2) to account explicitly for the financial risk associated with greenhouse gas emissions in developing IRPs and in making long-term resource investments.

There has been some indication in the past that climate change is too “controversial” to address in an IRP or that the science was not “generally accepted” so it was premature to

include climate change in IRP and bidding rules. We disagree with this notion and assert that it is no longer an issue of whether carbon emissions will be regulated in the United States, it is only a matter of when. Just anecdotally, within the past month, the CEO of Duke Energy announced support for a tax on carbon emissions, and the CEO of General Electric announced, among other things, a company-wide plan to reduce emissions. Moreover, as a signatory of the West Coast Governors Climate Change Initiative, Washington has placed a priority on reducing carbon emissions.

There is strong precedent for valuing carbon emissions in an IRP and RFP. Beginning with its 2003 IRP, PacifiCorp has assigned an imputed cost of \$8 per ton of CO<sub>2</sub> to its IRP base case assumption. Idaho Power in its 2004 IRP uses a CO<sub>2</sub> proxy cost of \$12.30/ton as a base case assumption beginning in 2008. Most recently, the California PUC adopted a policy requiring utilities to explicitly account for the financial risk of greenhouse gas emissions in long range planning and in the evaluation of procurement bids. In April, the CPUC adopted the costs to be used by the utilities: an escalating cost of \$5/ton of CO<sub>2</sub> in the near term, \$12.50/ton by 2008 and \$17.50 by 2013.

The UTC ultimately has the responsibility for guiding and judging utility resource acquisition decisions, so it is appropriate for the Commission to formally recognize these risks and to assign them appropriately.

#### Docket No. UE-030423: Bidding Rules

We are still reviewing the proposed rules for WAC 480-107. At this point, we offer only a few general comments related to resource solicitation and competitive bidding. We would hope to offer additional comments on the bidding rules following the June 9<sup>th</sup> workshop.

#### **“Single-source” RFPs**

We support the provision in proposed WAC 480-107-015 that permits a utility to issue an RFP “that limits project proposals to resources with specific characteristics.” We believe such “single source” RFPs are appropriate for renewable resources to ensure like resources are compared. Once a utility has identified a specific need for resource types through its IRP, the utility should have the option to procure these resources through resource specific solicitations. PacifiCorp, for example, issued a series of RFPs following its 2003 IRP to procure a variety of specific resource needs, including baseload, firm, peak and superpeak power supply on the East side of its system, as well as a Renewables RFP to meet portion of its IRP renewable target.

An all-source RFP, on the other hand, must be drafted with attention to how differing resources can be compared equitably. Scoring criteria must be included to provide for a means to compare apples to oranges so that the risks and benefits of differing resources are explicitly accounted for in the bid review.

#### **Project ranking**

New WAC 480-107-035 (4) allows a utility to reject a proposal that does not specify in its bid “the costs of complying with environmental laws, rules, and regulations in effect at the time of the bid.” This new language is insufficient. This appears to revise the existing requirement for bids to consider the cost of compliance with environmental laws currently in effect and those anticipated during the term of the project. While the proposed rules retain the direction to include ranking criteria that addresses environmental impacts, such as carbon dioxide emissions, we believe these requirements should be made more explicit. In our view,

as discussed above, the bidding rules should specifically require utilities to include a “greenhouse gas” adder in the evaluation of procurement bids in the utilities resource solicitations, as well as other anticipated emissions regulation. Given that new fossil resources may serve customers for 10, 20 or 40 years, it is inappropriate to only consider laws and rules in effect at the time of the bid.

**“Build vs. Buy”**

Finally, we’d like to highlight an issue that should be examined in the context of revising rules related to IRP and competitive bidding. As we detailed in a July 30, 2004 letter to the Commission, contracted power is treated as debt by financial rating agencies, resulting in a bias toward utility-owned energy resources. RNP does not have a preference towards one method of acquiring resources over another (i.e., we support utilities who enter PPAs for renewables as well as those utilities who own renewable projects). However, we believe the playing field needs to be level and that the Commission should examine policies that allow for the equitable treatment of utility ownership vs. purchase power agreements.

Thank you for this opportunity to provide comments to the Commission on these dockets and we look forward to participating in the June 9<sup>th</sup> workshop.

Sincerely,



Ann English Gravatt  
Senior Policy Associate