

Energy Independence Act
CTED Development of Rule Language
DRAFT
(May 1, 2007)

Language in italics indicates placeholder language, background information, material for discussion.

Key Principles

The following principles are unlikely to be included in the final rule language. However, they have value, as proposed by Snohomish, in keeping our focus on the goals. CTED added the last one. They are included here as reference points during the discussions of draft language.

Rules should support the overall purpose of the initiative – The goals of the Act are energy independence for Washington State and the Pacific Northwest, the provision of economic benefits to Washington residents, protection of clean air and water, and positioning of our state as a national leader in clean energy technologies. By maintaining this focus, Washington can build on the legacy of clean and affordable hydroelectricity achieved over the last eighty years.

Rules should encourage innovation and stretch goals – Stated differently, the rules should not inhibit (through fear of penalties for failing to attain those stretch goals) aggressive conservation targets and programs.

Rules should encourage the most efficient implementation of cost-effective conservation within a utility's service territory. – The rules should encourage achievement of the maximum amount of cost-effective conservation possible, regardless of sponsor. The rules should not cause utilities to carry out programs that other entities could and otherwise would implement more efficiently.

Rules should allow for the uniqueness of Qualifying Utility circumstances -- Each utility has a unique customer base, geography, building mix, etc. The rules should recognize and allow for these differences; latitude should be given to local governing boards so that utilities can implement strategies best suited to their circumstances while still achieving the mandates of Initiative 937.

Rules should focus on documentation requirements that make it simple for the State Auditor to determine a utility's compliance with the law -- Rules should be constructed that provide the Auditor with the tools needed to determine compliance with the intent of the initiative while leaving the specifics to the local public utility governing board.

Rules should allow for improvement over time -- By specifying process and documentation requirements rather than the specifics of calculations and methodologies, rules can be flexible enough to change over time as circumstances warrant.

Rules should support the public's access to each utility's decision-making process as it relates to the implementation of this statute -- Data and analyses that inform conservation and renewable resource decisions made by utility boards will be publicly

available and decisions regarding conservation target-setting and conservation and renewable resource decisions are made in a public setting with opportunities for public input.

WAC 194-37-010 Purpose and scope. The purpose of this chapter is to establish rules that describe the documentation, timelines and processes that consumer-owned qualifying utilities will provide to indicate compliance with the requirements of the Energy Independence Act, Chapter 19.285.

WAC 194-37-020 Application of rules. The rules in this chapter apply to consumer-owned electric utilities that provide electrical service to more than 25,000 customers.

WAC 194-37-030 Definitions.

- (1) “Attorney general” means the Washington State Office of the attorney general.
- (2) “Auditor” means (a) the Washington state auditor’s office or its designee for qualifying consumer-owned utilities under its jurisdiction, that is a public utility district formed under Title 54 RCW, a municipal electric utility formed under Title 35 RCW; or (b) an independent auditor selected by a qualifying utility that is not under the jurisdiction of the state auditor such as a cooperative formed under chapter 23.86 RCW or an electric mutual corporation or association formed under chapter 24.06 RCW.
- (3) “Conservation” means any reduction in electric power consumption resulting from increases in the efficiency of energy use, production, or distribution.
- (4) “Cost-effective” (*from statute*) means that a project or resource is forecast:
 - (a) To be reliable and available within the time it is needed; and
 - (b) To meet or reduce the electric power demand of the intended consumers at an estimated incremental system cost no greater than that of the least-cost similarly reliable and available alternative project or resource, or any combination thereof.
- (5) “Council” means the Pacific Northwest Electric Power and Conservation Planning Council.
- (6) “Customer” means a person or entity that purchases electricity for ultimate consumption and not for resale.
- (7) “Department” means the department of community, trade and economic development.
- (8) “Distributed generation” means an eligible renewable resource where the facility or any integrated cluster of generating units has a generating capacity of not more than 5 megawatts.
- (9) “Eligible renewable resource” means:
 - (a) Electricity from a generation facility powered by a renewable resource other than fresh water that commences operation after March 31, 1999, where either (i) The facility is located in the Pacific Northwest; or (ii) the electricity from the facility is delivered into Washington state *on a real time basis* without shaping, storage, or integration services; or
 - (b) A qualifying utility may count the incremental electricity produced as a result of efficiency improvements completed after March 31, 1999, to a hydroelectric

- generation project owned or contracted by qualifying utilities through a contractual investment in the efficiency technologies, by the qualifying utility and located in the Pacific Northwest where the additional generation does not result in new water diversions or impoundments; or
- (c) Incremental improvements to existing hydroelectric generation that commences after March 31, 1999 in irrigation pipes and canals located in the Pacific Northwest, where the additional generation does not result in new water diversions or impoundments.
- (10) “Integrated cluster” of eligible renewable resources is a group of eligible resources that are interconnected to the transmission/distribution system at a single point where the total amount being integrated is 5 MW or less. The Qualifying utility will clearly document what it is including as an integrated cluster. For the purposes of this Rule, an eligible resource or group of similar eligible resources can not be subdivided into amounts less than 5 MW solely to be considered an integrated cluster. (*Grant*)
- (11) “Load” means the amount of kilowatt-hours of electricity delivered in the most recently completed year by a qualifying utility to its Washington retail customers.
- (12) “Nonpower attributes” means all environmentally related characteristics, exclusive of energy, capacity reliability, and other electrical power service attributes, that are associated with the generation of electricity from a renewable resource, including but not limited to the facility’s fuel type, geographic location, vintage, qualification as an eligible renewable resource, and avoided emissions of pollutants to the air, soil, or water, and avoided emissions of carbon dioxide and other greenhouse gases.
- (13) “Pacific Northwest means” the area consisting of (a) the States of Oregon, Washington, and Idaho, the portion of the State of Montana west of the Continental Divide, and such portions of the States of Nevada, Utah, and Wyoming as are within the Columbia River drainage basin; and (b) any contiguous areas, not in excess of seventy-five air miles from the area referred to in subparagraph (a), which are a part of the service area of a rural electric cooperative customer served by the Bonneville Power Administration on December 5, 1980, which has a distribution system from which it serves both within and without such region.
- () “Public Facility”
- (14) “Qualifying utility” means a consumer-owned electric utility including a municipal electric utility formed under Title [35](#) RCW, a public utility district formed under Title [54](#) RCW, an irrigation district formed under chapter [87.03](#) RCW, a cooperative formed under chapter [23.86](#) RCW, or a mutual corporation or association formed under chapter [24.06](#) RCW, that is engaged in the business of distributing electricity to more than one retail electric customer in the state, that serves more than twenty-five thousand customers in the state of Washington. The number of customers served shall be based on data reported by a utility in form 861, “annual electric utility report,” filed with the energy information administration, United States department of energy.

An electric consumer-owned utility that does not meet the definition of a qualifying utility by January 1, 2007 but whose number of customers eventually

grows to exceed the 25,000 customer threshold shall meet the terms of the statute with the following timelines. All applicable target dates shall be delayed by the same number of years as there are between 2007 and the year in which the utility serves more than 25,000 customers. For example, a utility becomes a qualifying utility in 2010, then all dates outlined in RCW 19.280 and WAC 194-37 are delayed by three years for that utility.

- (15) “Renewable energy credit” means a tradable certificate of proof of at least one megawatt-hour of an eligible renewable resource where the generation facility is not powered by fresh water, the certificate includes all of the nonpower attributes associated with that each megawatt-hour of electricity, and the certificate is verified by the Western Renewable Electricity Generation Information System.
- (16) “Renewable resource”
- (17) “Weather adjusted load” means “load” calculated after variations in peak and average temperatures from year to year are taken into account.
- (18) “Year” means the twelve-month period commencing January 1st and ending December 31st.

WAC 194-37-040 Documenting Development of Conservation Targets

Placeholder: Cogeneration: Insert Grant PUD’s language

Counting Conservation Resources: The energy savings defined from cogeneration units will be counted during the two year period when the new cogeneration facility commences operation, beginning no sooner than January 1, 2010.

(1) By January 1, 2010, using methodologies consistent with those used by the Council in its most recently published regional power plan (5-year plan), all Washington State public utilities shall identify their achievable cost-effective conservation potential through 2019. At least every two years thereafter, the public utility shall review and update this assessment for the subsequent ten-year period. Documentation of a fully analyzed 10-year plan is only necessary after the Council publishes its most recent 5-year plan.

(2) The following documentation will satisfy the requirements outlined in Chapter 19.285.030 RCW, indicating consistency with the Council’s conservation assessment methodology.

- 1. A qualifying consumer-owned utility shall demonstrate compliance with the Council’s conservation targets methodology by either the Results Test Benchmark or the Service Area Specific Analysis methodologies.
- 2. Conservation from increases in the efficiency of energy production or distribution is additive to the consumer-owned utility’s conservation targets for Council compliance regardless of methodology used.

3. Conservation from load reductions due to installation of high efficiency cogeneration owned and used by a retail customer to meet its own needs is additive to the consumer-owned utility's conservation targets for Council compliance regardless of methodology used.
4. Each consumer-owned public utility may use its own methodology to evaluate production and distribution conservation potential and document achievements.
5. Results Test Benchmark Methodology.
 - a. Per the Results Test Benchmark methodology, the public utility will calculate its pro rata conservation targets for compliance based on its share of regional load using the Council's Conservation Target Calculator (or Calculator).
 - b. In calculating its pro rata share of the Council's targets, the public utility is encouraged to use Option 3 of the Calculator: "Target Based on Utility Reported Share of Total Regional Retail Sales by Sector - Adjusted for Irrigation Sales." This does not mean however that the public utility must adopt the same savings per customer sector as the pro rata share.
 - c. If per the Results Test Benchmark methodology the public utility adopts a ten-year conservation target equivalent to 95% or more of its pro rata share of the Council's targets, that constitutes sufficient compliance documentation of its target-setting process.
6. Analyses by both Washington electric utilities as well as the Council demonstrate that accelerating the acquisition of cost-effective conservation results in a higher net present value and cost savings to utility ratepayers. Therefore, any utility that publishes a biennial target higher than their calculated pro rata share of the Council's target has documented their compliance with this biennial target setting requirement.
7. Service Area Specific Analysis methodology.
 - a. In performing its own Service Area Specific Analysis for compliance, if the public utility adopts a conservation target within 10% of its pro-rata share of the Council's target, that is sufficient compliance documentation of its target-setting process.
 - b. If the public utility wishes to adopt a conservation target for its service area lower than its pro-rata share of the Council's target, the public utility must demonstrate compliance with the Council's methodology by identifying and documenting the following.
 - c. Consistency with the Council's methodology that avoided cost equals forecasted market prices. Utility may rely on the Council's calculation of avoided costs in the most recently published plan or may calculate its own forecast of market prices to determine avoided cost. Avoided cost shall not

be based upon a BPA rate of general application that includes the hydroelectric resources of the federal base system as defined by 16 USC 839a.

- d. Consistency with the Council's most recently published methodology that establishes the percentage of economic potential of resources for non-lost opportunities and for lost opportunity resources (defined in Council plan).
 - e. Exceptions to the Council's list of conservation measures not applicable to the utility's service area net of additional conservation measures that are not included in the Council's list that are applicable to the utility's service area.
 - f. Conservation measures with different percentage of applicable units, and/or different per unit incremental savings, due to differences such as assumptions on percentage of new construction in the utility's service area relative to the Council's assumption, are net of additional savings from measures where the applicable units and/or per unit electrical savings are higher than the Council's list.
 - g. Different forecasted program costs, avoided costs for demand and annual energy saved on a time-differentiated basis, and/or differences in the discounted present value inputs.
 - h. Different avoided distribution capacity cost savings compared with the Council's assumptions.
 - i. If a public utility chooses to deviate from the Council's calculated avoided costs, it must remain consistent with Council's avoided cost methodology, including transmission and distribution cost savings, based on not less than 10 years of a levelized wholesale market price forecast.
 - j. How on an integrated basis Items i – vii result in a lower 10-year conservation target than the public utility's pro rata share of the Council's target.
8. Nothing in this section is intended to require public utilities to adopt the Council's specific inputs or assumptions, unless they are specified as embedded in the Council's methodology. Nor does a public utility have to arrive at the same conclusions regarding specific conservation measures and actions to be consistent with the Council.
 9. Public utilities shall document that public notice was provided, a public hearing regarding their assessment of conservation potential was held, and that the conservation targets were adopted by the public utility's governing board in a public meeting. (*NWEC*)

WAC 194-37-050 Documentation of Conservation Savings

1. A measure or program can be reported as "conservation" if it:
 - a) Has a measure life of at least two years, and

- b) Is a measure or program identified by the Council in its most recent Plan, or
 - c) Is a measure or program not identified by the Council, but which meets the requirements of RCW 19.285.030, and has been included by the utility in developing its integrated resource plan pursuant to RCW 19.280.030 and its conservation targets pursuant to RCW 19.285.040. (PPWG)
2. In counting conservation savings regardless of attribution, total first year savings will be counted in the year during which the measure was installed, regardless of the month of installation, assuming the public utility has documented the savings pursuant to Section XXX.
 3. Each public utility shall be allowed to count towards its conservation targets its pro-rata share as used in Section XX of the following conservation savings:
 - a. Savings from BPA centrally funded region-wide conservation projects based upon the utility's share of BPA program expenses.
 - b. Savings from the Northwest Energy Efficiency Alliance (NEEA) and non-NEEA regional and local market transformation efforts and local programs apportioned to utilities using established distribution methods, based on each utilities relative share of funding NEEA through both direct funding and indirect funding through their Bonneville Power Administration rates.
 - c. Savings from Federal minimum efficiency standards and State building energy or appliance codes and standards if these measures were included in their or the Council's analysis or the utility's independent analysis which determined their biennial target.
 - d. More stringent local building and equipment codes and standards, including utility new service or connection standards with a counting of the savings above state code.
 - e. High efficiency cogeneration. In documenting the high-efficiency cogeneration for conservation purposes, then the load reduction ... may be counted as conservation only once in one biennial period.
 4. A public utility cannot count the loss of load due to curtailments or matters outside of the utility's control (e.g., a facility shut-down, etc.) towards its conservation targets. However, such losses of load may change the level of future targets to the extent that they reduce the conservation potential available to the public utility.
 5. Conservation savings from eligible utility programs beginning in 2010 for prescribed or deemed measures shall be based on the per unit savings set by the Council's Regional Technical Forum (RTF) "Planning, Tracking and Reporting

System” (PTRS). Utilities that use different savings figures shall document their variations in saving estimates from the RTF’s.

6. Conservation savings from eligible utility programs beginning in 2010 for custom measures shall be developed pursuant to the Council’s Custom Requirements available through the RTF “Planning, Tracking and Reporting System” (PTRS).

194-37-060 Conservation Reporting Requirements

1. The public utilities shall use the Council’s RTF “Planning, Tracking and Reporting System” (PTRS) as the appropriate reporting guide.

194-37-070 Alternative Documentation (*Placeholder for opting to Pay penalties*): (Move towards end of conservation section).

- (1) A qualifying consumer-owned utility that achieved conservation less than its biennial conservation target shall document that it paid the Washington Department of General Administration in the amount of \$50 per megawatt-hour for the difference between its biennial conservation target and its biennial conservation achievement.

Distribution System Improvements

Discussion

A significant portion of electric power acquired or generated by an electric utility is lost in transformation, transmission, and distribution of that power. Power losses occur at each step of the process. During periods of peak demand, when distribution systems are under stress, the losses increase exponentially. Investments in improved distribution facilities can provide significant kilowatt-hour savings.

In particular, voltage upgrades (operating distribution lines at higher voltages), new distribution transformers, and new distribution substation technology all provide measurable kilowatt-hour savings. To the extent that savings in these areas result from discrete actions by the utility, and can be measured and documented, these savings should be included in the achievement of the energy conservation obligation of the utility.

These savings may not be the result of programs directed specifically at energy conservation. Most utilities do not build “new” distribution circuits at less than 12 kilovolts (kV), but many have older circuits operating at lower voltages. In order to serve load growth in a localized area, for example, a utility may upgrade (new conductors and line transformers) a distribution line from 4kV to 12kV. Doing so will dramatically reduce losses associated with serving the customers currently being served by that circuit. The energy savings is a “byproduct” of the distribution system upgrade that is “caused” by the need to serve load growth. Nonetheless, to the extent that the

amount of electricity required by the utility to meet the customers' needs is reduced, the conservation is eligible for credit.

Some distribution investments primarily provide capacity savings, which are important and economic, but do not meet the definition of "conservation" in the Energy Independent Act. An example of this would be power factor correction capacitors, which reduces peak capacity requirements, but has a negligible impact on kilowatt-hour requirements.

Because this category of savings is not included in the Council's Plan, any savings in this area are additive to a utility's pro-rata share of the Council's regional target.

194-37-080 Documenting Efficiency from Distribution System Improvements

(1) **Energy Conservation from Distribution System Improvements:** To the extent that a utility can demonstrate that a discrete distribution system upgrade results in lower line losses and/or transformation losses, the avoided energy supply requirement to serve customers may be included in the utility's calculation of compliance with the requirements of RCW 19.285.040. Only those programs and measures included in the utility's conservation target shall be included in measurement of conservation achievement.

(2) **Documentation Requirements for Energy Conservation from Distribution System Improvements:** A utility that counts Distribution System Improvements in meeting its obligations under RCW 19.285.040 shall document these savings on either a component-performance basis or a system-analysis basis.

(3) **Component Performance:**

- A) Identify each component of the distribution system that was replaced prior to the end of its economic lifetime;
- B) Identify the unit savings from replacing each component. In making this calculation the utility may either identify the specific loads being carried by specific components that are replaced, or may ascribe the system average load for all such components to the individual components being replaced. For example, a utility with an average demand of 40 mVA to serve secondary voltage customers and having 200 mVA of installed line transformers may ascribe a 20% load factor to each line transformer being replaced with a more efficient transformer.
- C) The difference in losses for each component, multiplied by the number of such components replaced, may be deemed to be measured as conservation savings.
- D) The calculation shall be prepared under the direction of, and carry the stamp of a registered professional electrical engineer licensed by the Washington Department of Licensing.

(4) **System Analysis:**

- A) Prepare a distribution flow to compare the line losses of the components being replaced and the new components. The flow analysis shall measure the annual energy losses of the system being replaced or upgraded to the final system as installed.
- B) The difference in kilowatt-hour requirement at the utility point of receipt (for distribution utilities) or net energy for load (NEL) for generating utilities may be deemed to be measured as conservation savings.
- C) The flow analysis shall be prepared under the direction of, and carry the stamp of a registered professional electrical engineer licensed by the Washington Department of Licensing.

Peak Load Management

Discussion

Utilities engage in peak load management in many forms, including interruptible service, time-of-use pricing, real-time pricing, and virtual-power-plant dispatch of emergency generation. Peak load management is intended primarily to reduce peaking capacity requirements, not to conserve kilowatt-hours. At this time, the energy conservation targets prepared by the Council address only kilowatt-hour reductions; and peak load management is not generally directed at these types of savings.

There are, however, some kilowatt-hour savings that may result from peak load management efforts, and to the extent these are achieved, the kilowatt-hour savings can and should be included in a utility's progress toward meeting the targets of RCW 19.285.040. Examples of this include:

Interruptibility: *Interruption of a load is not conservation, it is curtailment. There are two possible outcomes of interruption. First, a customer may elect to use electricity during a non-peak period to replace the energy that was interrupted, for example, by increasing production during other periods. In this case, interruption is merely load shifting, discussed below. Alternatively, a customer may elect to not replace the interrupted power, choosing instead to accept a lower production level, lower comfort level, or substitute an alternative fuel for electricity. In this situation, the interruption of one customer reduces distribution line loading for all customers that remain on the system during the peak period, and therefore results in distribution loss reductions. These line loss reductions attributable to the consumption of customers that are not interrupted may be deemed to be conservation savings for the purposes of RCW 19.285.040.*

Load shifting distribution system savings: *load shifting from on-peak periods to off-peak periods can reduce line losses, as distribution and transmission system components have exponentially higher losses at peak load periods. The sum of generation-level power supply requirements to serve an un-shifted versus shifted load profile will reflect the lower line losses.*

Load shifting end-user savings: load shifting from on-peak periods to off-peak periods can reduce the total amount of electricity a customer uses to achieve the same level of business or residential activity if the customer has an energy storage system available. For example, an air-conditioning unit has a higher energy efficiency ratio when it is cooler and the heat rejection of the chiller unit is greater. The difference between the electricity required under shifted load and pre-shifted load to produce the same total number of units of useful thermal energy is a kilowatt-hour savings that can be quantified and included in the utility's measurement of conservation savings for the purposes of RCW 19.285.040.

Distributed Generation Dispatch: If a utility uses an emergency generator or other distributed generating unit to meet extreme peak period demands, doing so will "unload" transmission and distribution lines that would otherwise be used to deliver power generated at a more distant location to the same end-uses. Doing so will reduce line losses associated with both the loads served directly by the distributed generating unit and the loads that continue to be served by more distant generating facilities to the extent that power is delivered over more lightly-loaded transmission and distribution lines.

Because this category of savings is not included in the Council's Plan, any savings in this area are additive to a utility's pro-rata share of the Council's regional target.

194-37-100 Documenting Energy Efficiency Savings from Peak Load Management

A utility that engages in peak load management practices may include the kilowatt-hour savings that result from efficiency improvements that occur as a result of that peak load management practice. Eligible peak load management practices include interruptible service, time-of-use pricing, critical-period pricing, load-shifting equipment installations, and the dispatch of distributed generating resources to augment utility generating resources. Only the kilowatt-hour savings that results from reduced line losses due to peak load management practices implemented by the utility and the savings that results from improved customer equipment efficiency due to peak load management practices implemented by the utility may be deemed to be energy efficiency savings for the purposes of RCW 19.285.040. Only those programs and measures included in the utility's conservation target shall be included in measurement of conservation achievement.

(1) A utility that includes peak load management savings in its report of energy conservation achievements in a report submitted under RCW 19.85.070 shall include the following documentation in their report:

- a) A description of the peak load management practices of the utility that existed prior to the period for each performance report, and which practices are new and incremental.
- b) A description of the peak load management practices of the utility that were implemented during the period for which the report is being submitted;

- c) A distribution system flow analysis documenting the change in line losses effectuated by the change in peak load management practices implemented by the utility during the period for which the report is being submitted, stamped by an electrical engineer licenses to practice in the state of Washington;
- d) An itemized list of customer equipment efficiency improvements and the associated kilowatt-hour savings for each component, together with a list of the utility's actions to cause the change in customer equipment that produces the equipment efficiencies. This itemized list shall be prepared under the direction of, and carry the stamp of a registered professional electrical engineer licensed by the Washington Department of Licensing, or be reviewed and approved by a Certified Energy Manager holding a certificate from the Association of Energy Engineers.

Conservation Voltage Regulation

Discussion

Conservation voltage regulation (CVR) is the engineering practice of managing system distribution voltages to the minimum levels needed to provide adequate and reliable service. Many utilities have "normal" distribution voltages that exceed these levels during most periods, which then decline to minimum acceptable levels during periods of distribution system stress when resistance increases in distribution system components. By managing distribution voltage on an hour-to-hour basis, utilities can ensure that customers always receive at least the minimum voltage appropriate for their service.

Under CVR, the distribution voltage is slightly lower during most hours of the year, rising only when the system is under stress and higher feeder voltages are required to ensure that end-use customers receive the required minimum voltage.

A utility that implements a CVR program on or after the effective date of the Energy Independence Act is entitled to claim as conservation savings the reduction in line losses that results from that program.

194-37-110 Documenting Energy Efficiency Savings of Conservation Voltage Regulation

(1) Conservation voltage regulation means the hour-to-hour management of distribution feeder voltages to maintain the minimum acceptable voltages to end-use customers at all hours of the year. A utility may include as conservation the kilowatt-hour savings due to line loss reduction resulting from a conservation voltage regulation program implemented or augmented after January 1, 2007. The savings shall be measured as the difference between the line losses that would occur under pre-CVR practices, and the line losses that occur under CVR. (More?)

(2) A utility including conservation voltage regulation savings in a report under RCW 19.285.070 shall include the following information in that report:

- a) A detailed explanation of its distribution voltage management practices in effect as of December 31, 2006;
- b) A detailed explanation of its distribution voltage management practices in effect for the year in which the report is submitted;
- c) A load flow analysis or other detailed analysis indicating the change in line losses resulting from the change in distribution voltage management practices implemented after January 1, 2007. This report shall be prepared under the direction of, and carry the stamp of a registered professional electrical engineer licensed by the Washington Department of Licensing.

194-37-120 Documenting Improved Efficiency from Production Facilities

Discussion

This addresses only improved efficiency from non-renewable production facilities. It is assumed that any improved efficiency from renewable resources (e.g., hydro turbine runner replacement) will be computed and counted as a new renewable resource towards meeting the requirement in RCW 19.285.040(2).

Non-renewable production facilities use fuel of some kind, whether nuclear, coal, natural gas, oil, black liquor, or even municipal solid waste. The quantity of the fuel can be measured, and the electrical output of the generating unit can be measured. The change in fuel use, relative to the change in electrical output, can be measured to determine if improved efficiency has been achieved; it is not necessary to measure the efficiency of individual components of the generating facility. It may be necessary to adjust the results to reflect any additional emission control systems or equipment that is installed in the same time period as efficiency improvements are made.

In the case of MSW, however, the energy content of the fuel may be difficult to measure. In the case of MSW, it may be necessary to use a more approximate measure, such as tons of waste.

Because “improved efficiency” is measured against a baseline, the language below has been developed to measure efficiency based on the quantity of fuel used per unit of electricity produced. This eliminates all engineering elements of the efficiency calculation, except where simultaneous pollution control equipment is installed.

Because the Council has not yet included production efficiency improvements in their estimate of “conservation” resources, those utilities which document how their production efficiency improvements are meeting their obligations under RCW 19.285.040 will also be expected to document how those production efficiency opportunities are included in their achievable cost-effective conservation potential under RCW 19.285.040(1)(a).

Production efficiency improvements will be measured by the change in fuel requirements associated with producing electricity at a generating facility. For fuels where the heat content can be readily measured, the efficiency improvement will be measured by taking the change in fuel use from a base period per unit of electrical generation, and multiplying this by the post-efficiency output of the generating facility. For example, a generating unit that uses 10% less fuel per kilowatt-hour of generation in a base period, and generates 100,000,000 kilowatt-hours, will be deemed to have “conserved” 10,000,000 kilowatt-hours.

(1) Production efficiency improvements will be measured as the fraction of fuel savings achieved. The percentage reduction in fuel use per kilowatt-hour will be applied to the annual generation to determine the amount that is to be reported as conservation. These conservation savings will apply to meeting the utility conservation target for those utilities which include production efficiency in developing their conservation targets. Where efficiency improvements are installed simultaneous with pollution control equipment, the utility may separately estimate the effect of the efficiency improvements alone, independent of any impact on efficiency that the pollution control equipment may cause.

(2) A utility which includes production efficiency improvements in its annual reports pursuant to RCW 19.285.070 shall provide the auditors with the following information for each generating unit it operates:

1. A description of the efficiency improvements made to the generating facility;
2. Annual fuel use for three preceding years, in quantity units and million british thermal units;
3. Annual electrical output for three preceding years, in kilowatt-hours
4. The amount of capital investment and/or annual operating expenditure associated with the efficiency improvements;
5. The analysis prepared by the utility in planning the efficiency improvement(s) that evaluates the cost-effectiveness of the efficiency improvement(s).
6. Any post-retrofit analysis prepared by the utility in evaluating the performance and/or cost-effectiveness of the efficiency improvement(s).
7. A simple calculation showing the fuel use per kilowatt-hour before the efficiency improvement, the fuel use per kilowatt-hour after the efficiency improvement, and the amount of energy conservation being reported as the product of the percentage reduction in fuel use per kilowatt-hour and the number of kilowatt-hours generated.
8. If efficiency improvements are installed at the same time as pollution control equipment that may itself affect efficiency, the utility may provide documentation of the effect of the efficiency improvements alone on the fuel consumption per kilowatt-hour of the production facility. In this situation, the utility shall provide a description of the changes made, the capital cost expended for both efficiency changes and pollution control equipment, and an analysis of the impact of each on the fuel use per kilowatt-hour of the production facility. These shall be certified

by a registered professional engineer licensed by the Washington State Department of Licensing.

WAC 194-37-130 Renewable Resource Energy Targets

(1) Beginning January 1, 2012, and annually each January 1st through 2014, each qualifying consumer-owned utility shall acquire eligible renewable resources or eligible renewable energy credits towards meeting their 3% renewable energy target. The utility shall have documentation available no later than December 31 of each specific calendar year that the utility acquired renewable energy resources or renewable energy credits equal to three percent of the utility's average retail megawatt-hour sales for the two immediately preceding years. (*For 2012, that's 2010 and 2011.*)

(2) Beginning January 1, 2015, and annually each January 1st through 2019, each qualifying consumer-owned utility shall acquire eligible renewable resources or eligible renewable energy credits towards meeting its 9% renewable energy target. The utility shall have documentation available no later than December 31, 2015 that the utility acquired renewable energy resources or renewable energy credits equal to three percent of the utility's average retail megawatt-hour sales for the two immediately preceding years.

(3) Beginning January 1, 2020, and annually each January 1st following, each qualifying consumer-owned utility shall acquire eligible renewable resources or eligible renewable energy credits towards meeting their 15% renewable energy target. The utility shall have documentation available no later than December 31 of each specific calendar year that the utility acquired renewable energy resources or renewable energy credits equal to fifteen percent of the utility's average retail megawatt-hour sales for the two immediately preceding years.

(4) *Any consumer-owned utility that purchases 100% of its electricity from the Bonneville Power Administration may document to the auditors that 3% of its annual purchases for calendar years 2012, 2013, and 2014 are from eligible renewable resources. Etc.)*

(5) For purposes of determining compliance with RCW 19.285.040(2)(a), eligible renewable resources may include that portion of the power supply purchased by a qualifying utility from the Bonneville Power Administration that is determined by the Bonneville Power Administration in a public process to be generated by eligible renewable resources.

(6) For purposes of the requirements of RCW 19.285.040(2)(a), the megawatt-hours of eligible renewable resources and renewable energy credits reported to the Department of Community, Trade and Economic Development in the annual Fuel Mix Report may be used to determine compliance with the targets established in RCW 19.285.040(2)(a). (*Clark, GH, Clallam*) In addition, the utility may document that an eligible renewable resource has earned more renewable megawatt-hours of credit towards meeting its

target, than is indicated in its Fuel Mix Report, because a resource earned either the distributed generation multiplier credit (*reference*) or the apprenticeship and training multiplier credit (*reference*).

WAC 194-37-140 Documentation of Incremental Hydropower

(*Concept: Base this on average water year to smooth out peaks and valleys.*)

Definitions: (*will move to definitions*)

“Average water” means the average of water flows through a hydroelectric project over a period of not less than ten consecutive years and over years where there are significant changes in water flows from year to year.

“Efficiency” means generating more kilowatt-hours of electricity from same amount of water (*will need to qualify efficiency here to distinguish from other uses*)

“Qualified efficiency improvements” the installation of equipment or operating protocols that increase the amount electricity generated from the same amount of water. These may include rewinding of existing turbines, replacing turbines with more efficient units and changing control systems to optimize electricity generation. They do not include additions to capacity by increasing pondage or head, or diverting additional water into the project.

““Slice” contract” means a power purchase agreement where the purchaser receives a fixed percentage of the annual generation from a specified hydroelectric project or projects

(1) Qualifying utilities shall be able to count toward their renewable targets, incremental power acquired since 1999 through efficiency improvements at

(a) Hydropower facilities in the Pacific Northwest that they own or for which they hold “slice” contracts from qualifying utilities where the new generation does not result in new water diversions or impoundments. Renewable resources from incremental hydropower shall be calculated as follows: Under conditions of “average water,” or the average of multiple continuous water years as used in utilities planning or rate-making documents, the increase in aMW of generation attributable to the qualified improvements.

(i) “Increase in aMW of generation attributable to the qualified improvements” shall be documented by engineering studies or by before and after generation data. The documentation shall clearly explain (1) where the facility is located; (2) when the improvements were made; (3) how the amount of water in “average water” was calculated; (4) what other factors may have caused an increase in electricity production and how the amount “attributable to the qualified improvements” was extracted from the total increase; (5) how and why the “qualified improvements” increased hydropower production.

[This procedure generally follows the methodology set forth in FERC’s “Renewable energy production tax credit: Instructions for requesting certification of incremental hydropower production pursuant to the Energy Policy Act of

2005,” which may be found at <http://www.ferc.gov/industries/hydropower/gen-info/comp-admin/credit-cert.pdf>]

(b) Hydroelectric generation facilities in irrigation pipes and canals located in the Pacific Northwest, where the additional generation does not result in new water diversions or impoundments. Renewable resources from incremental hydropower shall be calculated as follows: Under conditions of “average water,” as used in utilities planning or rate-making documents, the increase in annual megawatt-hours of generation attributable to the qualified improvements.

(i) “Increase in annual megawatt-hours of generation attributable to the qualified improvements” shall be documented by engineering studies or by before and after generation data. The documentation shall clearly explain (1) where the facility is located; (2) when the improvements were made; (3) how the amount of water in “average water” was calculated; (4) what other factors may have caused an increase in electricity production and how the amount “attributable to the qualified improvements” was extracted from the total increase; (5) how and why the “qualified improvements” increased hydropower production; (6) how the utility came to acquire the incremental output associated with the qualified improvements.

(2) Incremental hydropower shall be counted towards a qualified utility’s renewable energy target only when all non-power attributes of the incremental power remain bundled with the power.

194-37-150 Documentation of Apprenticeship Training Criteria

(1) A written certification by the owner/builder of the project or the utility will be included in the first annual report Apprenticeship and Training Council.

(2) Once a project has been certified, the utility shall retain such documentation for the operating life of the facility, but need not include such documentation in subsequent annual reports. Any MWhs after acquisition of the eligible renewable resource or REC associated with that facility to document that the construction of the project was completed using at least 15% Apprenticeship hours of the total hours expended on the construction of the project by all trades for which there is program approved by the Washington State generated and delivered to the qualifying utility and the costs associated with those MWhs over the operating life of the project shall be multiplied and includable by the utility in meeting its annual targets, not to exceed the 1.2 times level of such resources included by the utility in establishing the annual targets. [i.e., if a utility identifies 1000 MWhs of a particular type of renewable resource in its target, and achieves that with a project that meets the apprenticeship criteria, it may count 1,200 MWhs towards the target] (PPWG)

194-37-160 Documentation of Renewable Resource Financial Path for No-Load Growth Qualifying Utilities

If a utility's weather adjusted load in reporting year is no greater than the average of the weather adjusted load in the three previous years [e.g.: load in 2012 is not greater than the average load in 2009-2011; load in 2013 not greater than in 2010-2012; load in 2014 not greater than in 2011-2013 and so on...] that utility is in compliance if:

- 1) the utility invested at least one-percent of its total annual revenue requirement in each reporting year on eligible renewable resources, renewable energy credits, or a combination of both; and
- 2) the utility
 - a) did not initiate or renew purchases of electricity from other than renewable resources or from ownership of non-renewable resources during the three years prior to the reporting year except on a daily spot market basis, OR,
 - b) If it did initiate or renew its acquisition of non-renewable resources through purchases of electricity from other than renewable resources or from ownership of non-renewable resources after December 7, 2006 , except on a daily spot market basis, it offset those acquisitions by acquiring equivalent renewable energy credits.
- 3) For purposes of compliance with this section, the utility acquisitions specified in sub-section (2) of this section shall be those in excess of "Priority Firm" power purchased from the Bonneville Power Administration under contracts in force when the Act was passed or "Tier 1" power purchased from the Bonneville Power Administration starting on October 1, 2011.

Annual Revenue Requirement

Discussion

As suggested in comments to CTED regarding this issue, there are a number of ways total annual retail revenue requirement could be defined for purposes of determining whether a qualifying utility has met or exceeded the cost cap identified in RCW 19.285.050(1)(a) or RCW 19.285.040(2)(d)(iii). Alternative definitions, along with their pros and cons are discussed below.

Alternative #1: Annual revenue requirement used to establish retail rates in effect.

Pros: This definition allows qualifying utilities to know in advance the amount of the cost cap. Does not affect ratemaking authority of utilities.

Cons: The annual revenue requirement used to establish retail rates in effect may not necessarily mirror the current revenue requirement, particularly if a number of years have passed since the utility's last rate adjustment.

Alternative #2: The budget approved by a qualifying utility's governing body for the fiscal year in which the cost cap calculation is being made.

Pros: Same as Definition #1. Plus, it might be slightly easier to document.

Cons: For utilities that sell power for resale, discerning the retail revenue requirement from its total revenue requirement might be a challenge.

Alternative #3: The actual retail electric sales revenues reported for the prior fiscal year in which the cost cap calculation is being made.

Pros: Easy to document. Consistent with the way in which the load requirements are determined in the Statute (i.e., after the fact). Does not affect utility's ratemaking authority.

Cons: Since the incremental cost and the revenue requirement need to be determined for the same year, this approach does not allow the utility to know in advance the amount of the cap.

WAC 194-37-XXX FINANCIAL COMPLIANCE PATH – ANNUAL REVENUE REQUIREMENT

(1) For purposes of the report filed by qualifying utility pursuant to RCW 19.285.070, the qualifying utility's total annual retail revenue requirement is that portion of the budget approved by its governing body for the current fiscal year that is associated with retail electricity sales.

Incremental Cost

Discussion

Utilities will be required to file a report with the Auditor's Office annually to determine whether it is in compliance with the Energy Independence Act. This begs the question of whether the cost cap calculations, or any component of these calculations thereof, should be recalculated each year. It is conceivable that utilities could update the comparison of the eligible renewable resource and its substitute resource for actual costs in historic years. Requiring utilities to do so every year would likely be cumbersome and complicated. However, there may be circumstances under which an update is warranted, primarily if the qualifying utility intends to fulfill its obligations under the Energy Independence Act by way of the cost cap calculation in RCW 19.285.050.

The intent of the law appears to presume that, when faced with the need to add resources, utilities will compare alternatives of comparable duration and decide the least cost approach. Whether or not this is actually the way utility's plan resources is debatable. However, since the law requires resources of comparable duration to be compared for purposes of the cost cap calculation, it is reasonable to assume that the law intended for the cost cap calculation to be based on the same substitute resource over the full contract length or facility life of the eligible renewable resource.

If a qualifying utility has already contracted for or purchased an eligible renewable resource, questions arise as to the appropriate selection of a substitute resource. In the absence of documentation to the contrary it could be presumed that an eligible renewable resource prior to the passage of the Act was already the least cost alternative or otherwise selected based on non-cost criteria. As such, absent documentation to the contrary, there should be no incremental cost associated with eligible renewable resources procured prior to the passage of the Act.

WAC 194-37-XXX DOCUMENTATION OF FINANCIAL PATH – INCREMENTAL COST

(1) To the extent that a qualifying utility intends to fulfill its requirements under the Energy Independence Act by meeting the cost cap identified in RCW 19.285.050, it must calculate the incremental cost of the eligible renewable resource using the most current information available to the utility at the time of its annual filings pursuant to RCW 19.285.070. Any changes in assumptions shall be documented to demonstrate that they reflect actual current cost or performance characteristics of the eligible renewable and substitute resources being compared

In the determination of the incremental cost of an eligible renewable resource, utilities may not change the substitute resource chosen as the basis for the incremental cost calculation over the life of the associated eligible renewable resource.

For eligible renewable resources contracted for or acquired prior to the passage of the Energy Independence Act, qualifying utilities must support the selection of the related substitute resource used in the determination of the incremental cost under RCW 19.285.050 with documentation that was publicly available at the time of the utility's decision to acquire the eligible renewable resources. If no such documentation is available, the incremental cost of an eligible renewable resources contracted for or acquired prior to the passage of the Energy Independence Act will be assumed equal to zero.

Methods for Levelizing Costs

Discussion

There are a number of ways to perform the calculations to levelize costs. Costs can be levelized in nominal terms or levelized in real terms (i.e., adjusting for inflation the “levelized” stream would have the same value). While costs levelized in real terms could produce more “accurate” results, this method introduces greater complexity and a greater opportunity for disagreement, primarily related to the inflation assumption. One added complexity arises from handling departures from forecasts as these calculations are revisited in later years. The initiative drafters seemed to contemplate readjustments to reflect more current information and forecasts. Another area of added complexity in using real levelized costs is the calculation of a real vs. a nominal discount rate.

All that said, utilities seem keenly aware that these calculations could have implications for the level of investment required to meet the cost cap. Taking this a step further, the choice of how to levelize might influence their actual rates, since one approach might require more incremental investment in renewable energy than another approach to levelizing costs. As this is an area of considerable sensitivity, utilities should have the option of following a “pre-approved” path or a separate path of their choosing.

However, even though utilities should be allowed the opportunity to choose a method for levelizing costs that is appropriate for their particular circumstances, allowing the chosen methodology to change over the contract length or facility life of the eligible renewable resource would lead to inappropriate results. In keeping with the underlying assumption in the Act that a utility will choose an eligible renewable resource over a substitute resource of comparable contract or facility life, it is reasonable to require that method chosen by the utility to levelize its costs in the incremental cost calculation should remain constant over the life of the underlying renewable resource.

Finally, the discount rate used to levelize the incremental cost of eligible renewable resources will be a key assumption. There is likely to be comparatively less controversy over the proper discount rate to use when the resource is first put online. However, as time goes on interest and inflation rates will change, and the then-appropriate discount rate may also change. Further, a resource financed at one point in time can often be refinanced if interest rates decline and, for capital intensive facilities, this may be significant.

WAC 194-37-XXX Documentation for Financial Path – Levelization of Costs

Utilities are encouraged, but not obligated, to calculate the levelized annual incremental cost of eligible renewable resources using the following methodology:

Step 1: Calculate the net present value of the cost of the utility’s eligible renewable and substitute resource over the appropriate contract length or facility life.

Step 2: Calculate equal nominal values over the appropriate contract length or facility life that have a net present value equal to those calculated in Step 1, using the same discount rate.

Step 3: Calculate the annual difference between the levelized delivered cost for the eligible renewable resource and the substitute resource to determine the levelized incremental cost of the eligible renewable resource.

Regardless of the methodology chosen to levelize costs, qualifying utilities must document the basis for its chosen method for levelizing costs and document the basis for the discount rate used in its levelized cost calculations. It must further document that the discount rate used to perform the levelized cost calculations are consistent with the inflationary assumptions built into the delivered cost projections for the eligible renewable and substitute resource.

The method and assumptions used to levelize delivered costs for the eligible renewable resource must be identical to those used to levelize the delivered cost of the associated substitute resource.

Once a qualifying utility has elected to use a specific method to levelize the cost of an eligible renewable resource and its associated substitute resource, this methodology must remain unchanged over the contract length or facility life of the eligible renewable resource.

Delivered Cost

Discussion

The stakeholder comments on this issue range from identify anything possible to include as a cost, to not wanting anything specifically identified. The former perspective appears to desire clarity or surety, so as to avoid future conflict with the Auditor's Office over interpretation. The latter perspective appears to desire an unrestrained ability to define what costs are appropriate for their particular circumstances.

One approach to accommodating these two extremes would be to provide guidance on the types of costs expected to be included in documentation, but not necessarily preclude others, if they were appropriate to the qualifying utilities particular circumstances.

Documenting operating expense should not be too contentious, as the expenses should be relatively apparent. How to properly convey the capital component of the delivered cost, however, will likely be source of significant discussion. For those that bond finance acquisitions of hard assets, they might advocate reporting principal, interest and, likely, coverage requirements. This is an issue of whether a cost-basis or accrual-basis method of accounting is more appropriate. Stakeholder utilities clearly wish not to be required to follow exclusively one of these two approaches.

WAC 194-37-XXX Documentation of Financial Path – Delivered Cost

The delivered cost of a resource includes all direct and indirect costs associated with that resource being delivered to the distribution system of a qualifying utility over the contract length or facility life of the delivered resource. Direct and indirect costs may include operating and capital expenses related to the delivered resource.

Using the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) as a guide, the reported resource costs are expected to generally fall within, but not necessarily be limited to, the following cost accounts.

Operating Expenses

Accounts 500-557:	Production Expense
Account 565:	Wholesale Wheeling Expense
Accounts 920-935:	Administrative and General Expense
Account 408.1:	Taxes Other than Federal Income Taxes

Capital Expenses

Accounts 403-407:	Depreciation and Amortization Expense
Accounts 427-431:	Interest-Related Expenses

These rules explicitly allow qualifying utilities to include the actual cost of firming, shaping and integration necessary to make the amount of eligible renewable resources equivalent to its associated substitute resource.

Although utilities are encouraged to do so, this rule should not be construed to mean that utilities must use the FERC system of accounts to document the delivered cost of resources pursuant to these rules. Regardless of the accounting convention used, utilities must provide full documentation to support the delivered cost estimates for eligible renewable resources and their associated substitute resources.

Resource Equivalence

Discussion

An intent of the Energy Independence Act was ensure an “apples-to-apples” comparison of eligible renewable and substitute resources in determining the impact of complying with the renewable energy provisions of this law. Since the nature of the output from generating resources vary from one to another, the underlying use and value to the utility of that output will likewise vary. As such, some consideration of this is necessary to ensure a fair comparison of the resources.

WAC 194-37-XXX Documentation of Financial Path – Resource Equivalence

Qualifying utilities are required to document that the amount of eligible renewable resource used to meet its renewable energy targets in RCW 19.285.040 are equivalent to the associated substitute resource used in determining the incremental cost of the eligible renewable resource.

Substitute Resource

Discussion

Certain stakeholder comments attempt to delineate every possible type of alternative resource and related source documentation. Realizing that attempting to list every conceivable possibility would be somewhat challenging, at best, and impossible, at worst, the rule should allow reasonable latitude to the utilities to determine what works best for them, while ensuring that the State Auditor's Office has at least three key pieces of information to document the utility's choice of the alternative resource: (1) what resource was chosen, (2) evidence that it is, in fact, available to the utility and (3) the source of the cost information pertaining to the resource.

Demand-side resources deserve explicit mention. If the rules are written from the point of view that the incremental cost should be the difference between the utilities' cost in a world with the Energy Independence Act and one without it, excluding conservation would not accurately reflect the utility's choice of substitute resources in a world without the Act. Conservation should only be considered the substitute resource if the utility is pursuing no new purchases of electrical power.

WAC 194-37-XXX Documentation of Financial Path – Substitute Resource

Pursuant to its annual filings to the Department under 19.285.070, qualifying utilities must document the type, availability and cost of the reasonably available substitute resource used to calculate the incremental cost of an eligible renewable resource.

In calculating the incremental cost under Section 1(b) of RCW 19.285.050, a utility shall identify substitute resources using its integrated resource planning process. The substitute resource used to determine the incremental cost of an eligible renewable resource shall have a contract length or facility life that is equal to or longer than the utilities comparable eligible renewable resource.

To the extent possible, in calculating the incremental cost under Section 1(b) of RCW 19.285.050, the qualifying utility should ensure that the substitute resource chosen has comparable service characteristics and risk profiles as the compared eligible renewable resource.

Substitute resources used by qualifying utilities in the calculation of the incremental cost of eligible renewable resources may include supply-side and/or demand-side substitute

resources, as appropriate for the utility. Demand-side resources eligible for consideration as substitute resources shall include only those measures that are beyond the cost-effective threshold used by the utility to establish its conservation target and therefore a part of an acquisition target under RCW 19.285.040. Supply-side substitute resources may also include resources that are sold as a result of the need to acquire eligible renewable resources.

In documenting the resource availability, the qualifying utility should provide evidence that the substitute resource is reasonably available to the utility over the time period which its costs are being compared with the eligible renewable resource.

Documentation related to the cost of the substitute resource may include, but is not limited to, formal offers for the sale of electricity, cost projections used as part of the utility's most recent integrated resource plan, or published cost projections from reputable third-party sources.

In situations where a utility is forced to sell resources that do not meet the definition of an eligible renewable resource under Act, the greater of the revenues received through the sale of these resources and the full embedded cost of the resource must be used in the determination of the cost of the substitute resource.

Renewable Energy Credits

Discussion

Utilities may find it in their best interest to meet all or a portion of the renewable energy requirements under the Energy Independence Act through the purchase of renewable energy credits. In this situation, the documentation requirement should greatly diminish for the portion of the utility's compliance with the requirements of the Act met with RECs.

194-37-... Financial Documentation Path Using Renewable Energy Credits

A utility may select to invest in renewable energy credits produced by eligible renewable resources to meet any portion of or the entirety of each annual target in RCW 19.285.040(2) (*note: insert WAC reference*). If the cost of the renewable energy credits for any one year meets or exceeds 4% of the utility's annual retail revenue requirement, then the utility may document, with copies of purchase contracts, to the auditors that the utility has expended at least 4% of its annual retail revenue requirement on renewable energy credits. This documentation will replace the need to document that the utility met the renewable energy targets identified in RCW 19.285.040(2)

Concept: Hybrid Approach to Cost Cap

A utility may have difficulty measuring the incremental cost of a renewable resource it has acquired due to complex costing data, lack of "comparability" to any easily analyzed

substitute resource, uncertainty of cost for a substitute resource, or other issues. However, the utility should know how many megawatt-hours of eligible renewable resource it is obligated to acquire (e.g., 3% of load) and how many megawatt-hours it has acquired.

If a utility acquired zero eligible renewable resources, it would be able to “buy its way” into compliance by purchasing RECs with costs equal to 4% of its annual retail revenue requirement. This is a very straightforward calculation.

A hybrid approach to complying with the Act’s requirements could be devised that allows a utility that has met a portion of its renewable obligation to meet the remaining requirement by acquiring RECs at a cost equal to the fraction of unmet renewable energy requirements multiplied by the 4% cost cap. For example, for the 2012 reporting period with a 3% renewable obligation, a utility that had acquired renewable resources equal to 1.5% of its load (50% of the requirement) could spend 2% of its revenue requirement on RECs and document its obligation under the Act.

194-37-XXX Documentation for the Hybrid Achievement towards the Renewable Resource Cost Cap and Target

A utility that has acquired a portion of its required eligible renewable resources may document that it has met its remaining obligation by acquiring RECs up to a percentage of its annual retail revenue requirement equal to the fraction of unmet renewable obligation under RCW 19.285.040 multiplied by 4%. A utility choosing this alternate documentation path is not required to document the incremental cost of those renewable resources actually acquired. The only documentation required is:

- a) The amount of eligible renewable resources required by the Act;
- b) The amount of eligible renewable resources actually acquired by the utility, together with documentation as required to demonstrate eligibility;
- c) The amount expended on RECs.
- d) The total retail revenue requirement for the reporting period.

A utility will be deemed to have adequately documented compliance if the amount expended for RECs is greater than or equal to the fraction of 4% represented by the shortfall of actual eligible renewable resources acquired as a percentage of the obligation.

194-37-...Alternative Documentation for Renewable Resource Achievement *(placeholder for opting to pay fee)*

A qualifying consumer-owned utility that purchased less than its specified annual target of renewable energy or renewable energy credits or did not invest 4% of its annual revenue requirement on the incremental cost of renewable resources (WAC 194-37-...) to meet its annual renewable energy target shall document that it paid the Washington Department of General Administration an amount equal to \$50 per megawatt-hour for the

difference between its annual retail sales multiplied by that year's renewable energy target minus the magnitude of eligible renewable resources or RECs that the utility acquired to meet that year's target.

194-37-200 Timelines and Reporting

(1) Beginning January 1, 2010 and every even year there after, a qualifying utility shall publish its conservation resource potential target and have its documentation of consistency with the Council's methodology in establishing this target available for the auditors review.

(2) By June 1st, 2012, and annually thereafter, each qualifying utility shall report to the department on conservation achievement towards their biennial target. Included in this report will be a copy of the data compiled by the Council's Regional Technical Forum "Planning, Tracking and Reporting System" ... and make available all documentation indicated in this WAC to the auditors for their Agreed upon Procedures Engagement audit.

(3) By June 1st, 2013, and annually thereafter, each qualifying utility shall report to the department on its renewable resource acquisition towards meeting its specific annual renewable resource target. Each utility may rely on its reporting data submitted during the Fuel Mix Reporting Process (RCW 19.29A) ... and make available to the auditors for their Agreed upon Procedures Engagement audit.

To be continued...