

Appendix A

Regulatory Requirements for Planning: I-937 – The Energy Independence Act and HB 1010 – Electric Utility Resource Plans

Of all the regulations, laws, and resolutions that affect City Light (see Appendix B), none have as direct an impact on long-term resource planning as Washington State's I-937 and HB 1010. I-937 establishes future quotas and schedules for acquisition of conservation and qualifying renewable resources. HB 1010 establishes resource planning requirements. This appendix summarizes these two laws:

Summary of I-937 – The Energy Independence Act

Passed by ballot measure initiative in November 2006, the Energy Independence Act was modeled after renewable portfolio standards that had been adopted in other states.

The Energy Independence Act requires all utilities in Washington with more than 25,000 customers to acquire all cost-effective conservation at a prescribed pace and to acquire "qualifying" renewable resources¹ at a rate of a) 3% of retail load by 2012; b) 9% of retail load by 2016; and c) 15% of retail load by 2020. The Act is supported by 23 pages of rules.

Conservation Compliance

By January 1, 2010, using methodologies² consistent with the Northwest Power & Conservation Council, each utility must identify its achievable cost-effective conservation potential through 2019 and hold a public hearing on its target. At least every two years thereafter, utilities must update this assessment for the subsequent ten-year period and again hold a public hearing. Each biennial target must be no lower than the qualifying utility's pro rata share for that two-year period of its cost-effective conservation potential for the subsequent ten-year period. In meeting its conservation targets, a utility may count high-efficiency cogeneration (a useful thermal energy output of at least 33% of the total energy output).

Renewables Compliance

A utility can comply with the renewables target by meeting the percentage targets described above. A utility is also considered to be in compliance when a) the utility's weather-adjusted load for the previous three years on average did not increase over that time

period; b) the utility did not commence or renew ownership or incremental purchases of electricity from resources other than renewable resources other than on a daily spot price basis and the electricity is not offset by equivalent renewable energy credits; and c) the utility invested at least one percent of its total annual retail revenue requirement that year on eligible renewable resources, renewable energy credits, or a combination of both.

A utility may count distributed generation at double the facility's electrical output if a) the utility owns or has contracted for the distributed generation and the associated renewable energy credits, or b) has contracted to purchase the associated renewable energy credits.

The renewables requirements may be met for any given year with renewable energy credits (RECs) produced during that year, the preceding year, or the subsequent year (2-year life). Each renewable energy credit must be documented by the Western Renewable Energy Generation Information System (WREGIS) and may be used only once to meet requirements. RECs must be purchased from renewable resources within the Pacific Northwest.

A qualifying utility shall be considered in compliance with an annual target if a) unforeseeable events such as weather-related damage, mechanical failure, strikes, lockouts, and actions of a governmental authority adversely affect the generation, transmission, or distribution of an eligible renewable resource under contract to a qualifying utility, or b) for a given year, the utility invested four percent of its total annual retail revenue requirement on the incremental costs³ of eligible renewable resources, the cost of renewable energy credits, or both.

Penalties

Failure to comply with either the renewables or conservation targets results in a penalty of \$50/MWh paid to the State of Washington. Beginning in 2007, the penalty is adjusted annually for inflation. Proceeds will be used to purchase RECs or fund public conservation projects.

Reporting

On or before June 1, 2012, and annually thereafter, each public utility shall report to the Washington State Department of Commerce (formerly Community, Trade, & Economic Development Department) on its progress in the preceding year in meeting the targets established in the Act, including expected electricity savings from the biennial conservation target, expenditures on conservation, actual electricity savings results, the utility's annual load for the prior two years, the amount of megawatt-hours needed to meet the annual renewable energy target, the amount of megawatt-hours of each type of eligible renewable resource acquired, the type, amount, and generation source of renewable energy credits acquired, and the percent of its total annual retail revenue requirement invested in the incremental cost of eligible renewable resources.

¹ Qualifying renewable energy must either be sourced from within the Pacific Northwest, or be purchased outside the Pacific Northwest but delivered into Washington on a firm transmission path, real-time, without integration services. Hydroelectric power is not qualifying renewable energy, unless it is the direct result of qualifying hydro efficiency improvements made after March 31, 1999.

² The Northwest Power & Conservation Council (NPCC) assumes that 85% of cost-effective conservation is "achievable." After more than 30 years of conservation programs, City Light has been experiencing 70% or less. Nevertheless, in 2010 City Light indirectly utilized the NPCC's "achievable" conservation assumption by using the Council's conservation calculator for I-937. This approach may be reexamined in the 2012 IRP.

³ The incremental cost of a renewable resource is calculated as the difference between the levelized delivered cost of the eligible renewable resource, compared to the levelized delivered cost of an equivalent amount of reasonably available substitute resources that do not qualify as eligible renewable resources, where the resources being compared have the same contract length or facility life.

Summary of HB 1010 – Electric Utility Planning

The Washington legislature passed HB 1010 with broad sponsorship during the 2006 regular session. The intent of the bill was “to encourage the development of new safe, clean, and reliable energy resources...The legislature finds it essential that electric utilities in Washington develop comprehensive resource plans...”

Plan Requirements

Electric utilities with more than 25,000 customers that are not full-requirements customers (of the Bonneville Power Administration) must develop or update an integrated resource plan at least every two years, beginning September 1, 2008. The integrated resource plan must include:

- a) A range of forecasts for customer demand for at least 10 years.
- b) An assessment of commercially-available conservation and efficiency resources.
- c) An assessment of commercially-available, utility-scale renewable and nonrenewable generating technologies.

- d) A comparative evaluation of renewable and nonrenewable generating resources, conservation, and efficiency resources using “lowest reasonable cost” as a criterion.
- e) The evaluation and integration of demand forecasts, resources, and conservation into a mix that meets current and projected needs at the lowest reasonable cost and risk.
- f) A short-term plan identifying specific actions to be taken.

Each utility shall publish its plan as part of an annual report or as a separate document available to the public. The plans cannot be the basis for legal actions taken against utilities.

Public Input

The governing body of consumer-owned utilities (the Seattle City Council for City Light) must encourage participation of its consumers in development of the plans and progress reports. It must approve the plan after it has provided public notice and hearing.

Filing the Plan

Each consumer-owned utility must transmit a copy of its plan to the Washington State Department of Commerce by September 1, 2008, and every two years thereafter. A cover sheet summarizing essential data from the plans or plan updates must be submitted. The cover sheet contains information on loads, exports and imports, conservation, demand response, cogeneration, hydro, wind, other renewables, thermal-gas, thermal-coal, BPA contract, and net contracts.

The Department of Commerce will review the plans of consumer-owned utilities and data available from other state, regional, and national sources and prepare a report to the legislature assessing the overall adequacy of Washington’s electricity supply.