

## **Washington State Renewable Energy and Energy Conservation Initiative 937**

### **PacifiCorp Position**

- **PacifiCorp supports state and federal policies that promote a cost effective level of renewable energy and energy efficiency programs for its customers and the customers of all retail providers of electric and gas services. PacifiCorp will abide by the decision of the Washington voters regarding Initiative 937. But, as a regulated public utility, PacifiCorp believes it has a responsibility to its customers, regulators and legislators to identify its concerns with the Initiative.**
  - PacifiCorp's primary concern is that the renewable energy mandates and time periods in the Initiative fail to permit utilities and state regulators to consider the cost effectiveness of the mandates. This failure is in contrast to the Initiative provisions regarding energy conservation programs which require that those programs be cost effective. The Initiative also contains unnecessary penalty provisions that can harm customers, and the complexity and vagaries of the Initiative will complicate compliance.
  - Energy efficiency programs and renewable energy are critical elements of the portfolio of services that PacifiCorp provides to its customers. Cost-effective energy efficiency programs and cost-effective renewable energy provide significant benefits to Washington customers and consumers in general. We will continue to offer cost-effective energy efficiency programs and add new cost-effective renewable resources without mandates such as I-937. We will work with our customers and stakeholders in Washington to achieve a balanced, cost-effective resource portfolio. We are convinced that I-937 is not the appropriate means to achieve that portfolio and is not in the best interests of Washington consumers.
  
- **PacifiCorp does not need a legislative mandate to provide customers with energy efficiency programs and renewable energy. It is already doing so.**
  - The Initiative would require electric utilities serving more than 25,000 retail customers in Washington to pursue all available conservation that is cost-effective, reliable and feasible. PacifiCorp already offers its customers all energy efficiency and demand-side management programs that are cost effective. These programs are approved by the Washington regulators.
  - The Initiative would mandate that electric utilities serving more than 25,000 retail customers in Washington use certain generation that the Initiative defines as renewable. The mandates are 3% of customer kWh usage by 2012, 9% by 2016 and 15% by 2020. PacifiCorp already uses significant renewable energy resources to serve Washington customers. Of the 10,000 MW of existing PacifiCorp generation, 1167 MW is provided by hydro-electric facilities, 457 MW is provided by wind facilities, 29 MW is provided by geothermal facilities, 51 MW is provided by solar & biomass, and at least an additional 1000 MW of renewable facilities will be added by 2015, regardless of the Initiative.
  - PacifiCorp's Blue Sky program, which allows Washington customers to voluntarily support renewable energy, is one of the most successful programs of its type in the U.S. If the Initiative passes, customer participation in the program may suffer.

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- **The renewable energy mandates in the Initiative are not based upon economic considerations and may not be cost effective for customers. This means that rates will not be decreased, but may be increased as a result of the Initiative.**
  - The investments in energy efficiency and renewable energy that are already being made by PacifiCorp have been selected because they are cost effective for customers.
  - In contrast, the renewable energy percentages and time frames specified in the Initiative are not based upon a determination of cost effectiveness or need to serve load. In fact, while the Initiative requires that energy conservation programs offered to customers be cost effective, the Initiative does not even allow for a determination of cost effectiveness of the renewable targets and time frames.
  - Even without the Initiative, PacifiCorp will continue to offer its customers all cost-effective energy conservation programs and will continue to secure all available cost-effective renewable energy. To the extent the Initiative requires PacifiCorp to do more, by definition it will not be cost effective and would increase rates.
  - The Initiative makes no provision to allow the Washington Utilities and Transportation Commission to modify the percentages and time periods – even if everyone agreed it would be cost effective to do so.
  - There is no economic basis for allowing distributed generation to count twice or for giving added credit simply because a developer used a particular labor force.
  
- **The cost cap does not protect customers from uneconomic expenditures for renewable energy.**
  - The Initiative provides that a utility will be deemed to satisfy the renewable energy standard if it has invested 4% of its total annual revenue requirement on the incremental costs of renewable energy. It is not clear whether the 4% compounds annually, but it is clear that this “cost cap” will increase as revenue requirement increases.
  - The cost cap is not based upon a determination of cost effectiveness; in fact, a cost cap would not be necessary if the Initiative was limited to cost effective expenditures for renewable energy.
  - The cost cap does not apply to all of the utility’s renewable energy costs; it only applies to the increment by which the cost of the renewable energy exceeds the cost of non-renewable alternatives. For PacifiCorp customers, this could require that they pay as much as 7.4 cents per kWh above the cost of non-renewable alternatives.
  - The determination of the cost of non-renewable alternatives is not defined, will be complex, and probably lead to litigation.
  - Because utilities will need to contract for or build renewable facilities years in advance of the year for which the cost cap is determined, the utilities cannot rely upon the cost cap.
  - The cost cap provision effectively tells renewable energy developers and sellers of renewable energy credits how much they can charge a utility in excess of the cost of non-renewable alternatives, seriously disadvantaging the utilities and their customers.
  
- **The penalty provisions are excessive and unnecessary.**
  - Even without the Initiative, utilities will make investments that they and regulators determine to be cost effective. The penalty provisions in the Initiative

- are not necessary and, in fact, are an acknowledgement that the renewable energy mandates of the Initiative are not cost effective.
  - The penalty in the Initiative is \$50 per MWh or 5 cents per kWh. The penalty is excessive as it is equivalent to the full rate PacifiCorp charges Washington residential customers for bundled electric service (which includes not only generation but transmission, distribution, administrative services).
  - The penalty calculations will be based upon factors the utilities cannot know at the time of building or contracting for renewable energy. As a result, the utilities will have an incentive to reduce exposure to the risk of penalties by procuring more renewable energy than would otherwise be necessary. This will not be cost-effective for customers.
- **Because the Initiative requires use of forecasts of annual renewable energy production and annual customer usage, compliance will be complex and uncertain.**
  - The percentage mandates in the Initiative are measured with reference to kWh delivered to customers; in other words, customer usage. The amount of customer usage is difficult to forecast since it is determined by customers, not by the utility. Weather, economic conditions, and increased uses for electricity all impact customer usage, making forecasting difficult.
  - The amount of kWh produced by renewable energy facilities also varies from year to year, largely influenced by weather conditions, again making forecasting difficult.
  - As a result of the Initiative's requirement to use forecast data, a utility will not know the exact amount of renewable energy that it needs to contract for or build to satisfy the mandates until the penalty determination is completed.
- **The definition of renewable energy facility is artificial and unreasonably restrictive. This restrictive definition will prevent PacifiCorp from using the most economic resources to serve its Washington customers.**
  - The definition of renewable resources in the Initiative specifically excludes hydro-electric facilities powered by fresh water (with the limited exception of some incremental improvements to existing facilities).
  - The definition excludes any renewable energy facility that commenced operation prior to 1999.
  - The definition excludes all renewable generation outside the Pacific Northwest unless the power can physically be delivered to Washington.
- **The mandates do not apply equally. If the requirements of the Initiative are indeed in the public interest, then all retail suppliers of utility lighting and heating service should be required to comply.**
  - The requirements in the Initiative apply only to electric utilities serving more than 25,000 Washington retail customers. As a result, 44 of the 61 Washington electric utilities, representing 9% of the electric customers in Washington, are not covered by the Initiative.
  - The energy conservation requirements do not apply to providers of natural gas and propane service.