

The challenge of RPS for publicly owned utilities in the Pacific Northwest

With the recent adoption of Renewable Portfolio Standards (RPS) in both Oregon and Washington, the landscape of renewable power generation is set to change dramatically in the next two decades.

Washington

In the fall of 2006, Washington voters approved *Initiative 937*, which mandated renewable energy and conservation requirements for all publicly owned and investor-owned electric utilities serving more than 25,000 customers. *Initiative 937*, also known as the *Energy Independence Act*, was codified at RCW Chapter 19.285.

Initiative 937 requires utilities to use eligible renewable resources to serve at least 3 percent of their retail load by January 1, 2012, at least 9 percent by 2016, and at least 15 percent by 2020. A publicly owned utility can comply with these targets in one of four ways: purchase power generated with renewable resources; purchase renewable energy credits; purchase a combination of renewable power and energy credit purchases; or invest four percent of its total annual retail revenue requirement in the incremental costs of eligible renewable resources or in renewable energy credits.

Eligible renewable energy resources are those produced by facilities that (1) commenced operation after March 31, 1999, are located in the Pacific Northwest, or able to deliver power on a real-time basis to Washington, and (2) generate power using water, wind, solar, geothermal, tidal, landfill or sewage treatment gases, certain biodiesel fuels, or certain biomass sources. Resources that are not eligible under the new RPS are power purchased as part of a voluntary program through which customers purchase “green power” and unbundled renewable power whose renewable energy credits are owned by another entity. Hydroelectric power is

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not eligible except under a narrow set of criteria. Cogeneration of fossil fuels and combustible renewable resources is only partially eligible.

Initiative 937 also contains several production incentives. Distributed generation (facilities with a generation capacity of not more than five megawatts) may count for twice the renewable energy resources if the utility owns or has contracted for the distributed generation or its associated renewable energy credits. Power purchased from facilities that began operation after December 31, 2005, may be counted 1.2 times if the facility developer used an apprenticeship program approved by the Washington state apprenticeship and training council.

Under the new RPS, utilities are required to make an annual report to the state. Utilities not in compliance with renewable energy targets will be fined \$50 for each megawatt-hour of shortfall. The Washington Utilities and Transportation Commission and the Washington Department of Community, Trade and Economic Development (CTED) will issue regulations to implement the new law by the end of 2007. The current draft of the CTED regulations indicates that publicly owned utilities may comply with *Initiative 937* through purchase of renewable power from the Bonneville Power Administration (BPA).

Oregon

Oregon’s RPS, *Senate Bill 838*, was signed into law in June 2007. The Oregon RPS seeks to achieve the same goals as *Initiative 937* but is structured in a slightly different way. An Oregon utility is required to meet targets based

on the size of its retail load. Utilities serving 3 percent or more of Oregon’s retail load must serve 5 percent of their retail load with renewable power starting in 2011. This increases to 15 percent in 2015, 20 percent in 2020, and 25 percent in 2025. Utilities that serve between 1.5 percent and 3 percent of Oregon’s retail load must serve 10 percent of their retail load with renewable power by 2025. All other utilities must serve 5 percent of their retail load with renewable power by 2025. Publicly owned utilities are exempt from compliance with these targets to the extent that compliance would displace BPA power. All utilities are exempt from compliance if compliance would require a utility to purchase more power than it needs to serve its load or would result in the displacement of a non-fossil-fueled resource.

Under Oregon’s RPS, eligible power resources include BPA power that BPA designates as environmentally-preferred power and electricity generated at facilities located within Western Electricity Coordinating Council (WECC) territory that began operation on or after January 1, 1995, and generate electricity from wind, solar, geothermal, tidal, certain biomass, and certain hydroelectric sources. Power from pre-1995 facilities is eligible to the extent of capacity or efficiency upgrades installed after that date. Power produced by cogeneration facilities is eligible for the proportion of the renewable source used at the facility. Ineligible sources include most hydro-power, fossil fuels, nuclear power, municipal solid waste incineration, and “green electricity” voluntarily purchased by retail customers.

A publicly owned utility in Oregon

is required to submit annual compliance reports to its customers. Compliance requires the utility to possess proof of generation by a renewable source in the form of a Renewable Energy Certificate (REC) for each megawatt-hour of generation of eligible electricity. To achieve compliance, a utility must acquire and permanently retire the requisite amount of RECs. The utility can acquire RECs in three ways: produce eligible power that is used to serve retail load, purchase unbundled RECs that are sold separately from the underlying power, and purchase eligible power along with the REC. RECs procured before March 31 of a given year can be used to comply with a previous year's target. RECs can also be banked indefinitely for future compliance.

Oregon's RPS contains two cost-control mechanisms to protect con-

sumers from the cost of compliance. First, a utility may pay a set fee per megawatt-hour into a renewable energy fund. For a publicly owned utility, this alternative payment is set by the utility's governing body. Second, a publicly owned utility is not required to spend more than four percent of its applicable annual revenue requirement on the costs of compliance.

Senate Bill 838 also amended several sections of *ORS Chapter 261* to make it easier for a people's utility district (PUD) to finance generation facilities, build generation facilities, and participate in the REC market. An Oregon PUD can now become a member of a cooperative or a private limited liability company formed for the purpose of generating or transmitting electricity. The bill also clarifies that municipal utilities, PUDs, and joint operating agencies have

the authority to obtain and sell RECs and incur indebtedness to procure RECs.

Every publicly owned utility should undertake an analysis of how these RPS affect its operations and develop both short-term and long-term compliance strategies. Compliance with the applicable RPS will be unique based on each utility's size, load growth, and resource mix; there is no "one-size fits all" compliance strategy. **NWPPA**

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