

**Washington Utilities and Transportation Commission (WUTC)
Report and Policy Statement Concerning Acquisition of Renewable Resources by Investor-
Owned Utilities**

In early 2010, the WUTC started to review possible statutory or regulatory barriers investor-owned utilities (IOUs) may face when meeting statutory requirements designed to promote renewable energy, such as the Energy Independence Act (I-937). The review included two public work sessions during the summer of 2010, and it would eventually focus on the WUTC's process for evaluating the prudence of renewable energy acquisitions by IOUs.

After considering the oral testimony and written comments generated by its review, the WUTC issued a report and policy statement on December 30, 2010. The report explains how the WUTC conducted its review, the commission's statutory authority governing renewable resources and resource acquisitions by IOUs, and how the commission has applied this authority to prior resource acquisitions. The policy statement explains the criteria the WUTC will use to review the prudence of an IOU's actions when it acquires renewable resources in three scenarios: (1) when the acquisition is to meet I-937; (2) when the acquisition is to meet I-937, but the acquisition is in advance of an I-937 target date; and (3) when the acquisition is to meet an energy demand and the IOU has already acquired other resources to meet I-937. The policy statement also discusses the conditions the WUTC will use to pre-approve an IOU's acquisition of renewable energy resources.

Prudency Review. As part of the ratemaking process, the WUTC considers whether and to what extent an IOU should recover costs of its resource acquisitions. Before such costs are recovered in rates, an IOU must demonstrate that resource acquisitions are “used and useful for service in this state” and “prudent.” The question of prudency requires an IOU to demonstrate that its acquisition costs were reasonable and in line with other available resources.

Renewable Resource Acquisitions to Meet I-937. The policy statement affirms the WUTC's full support for the mandates and intent of I-937, and declares the commission will continue to provide the flexibility necessary to allow an IOU to invest in renewable resources without fearing disallowance in rates because of lack of physical need and without having to compare the cost of a renewable with conventional generation. However, as is the case with the WUTC's review of conventional resource acquisitions, the commission will continue to ensure that the IOU's decision-making process is thorough and prudent, and that it considers all relevant alternatives for acquisition of renewable power, such as the option of purchasing renewable energy credits.

Renewable Resource Acquisitions to Meet I-937, but in Advance of an I-937 Target Date. The policy statement declares the WUTC will consider resource acquisitions to meet I-937, but in advance of need, using the same criteria as when the IOU acquires such resources at or near an I-937 deadline, though there will be additional consideration relating to the timing of the acquisition. Because these acquisition decisions are economically complex, the WUTC expects IOU management to present a cogent and detailed analysis of the renewable

resource's costs and benefits, and to demonstrate the IOU engaged in a reasoned process involving a thorough and careful evaluation of its technical and economic options.

Renewable Resource Acquisitions to Meet an Energy Demand but in Excess of an I-937

Requirement. The policy statement declares an IOU considering the acquisition of a renewable resource in excess of an I-937 requirement would be required to demonstrate first that the resource fills a power or capacity need. The IOU would also be required to demonstrate that the proposed renewable resource would compete favorably in an economic comparison with all other resource options, both renewable and conventional. The economic comparison may consider the cost of carbon consistent with the range of assumptions in the IOU's integrated resource plan.

Pre-Approval of Renewable Resource Acquisitions. The policy statement declares the WUTC will be receptive to hearing petitions for pre-approving renewable resource acquisitions to meet I-937. But the commission will defer a prudency review of the ultimate cost of the resource until after the resource is acquired and placed into service. The WUTC believes this will "ensure that utilities have incentives to acquire or construct the least cost [renewable] resource and to efficiently manage their costs, which will benefit both ratepayers and shareholders."

The policy statement also declares the WUTC will be receptive to hearing petitions for pre-approving renewable resource acquisitions to meet load but not required by I-937. The petitions will be subject to the same analysis for renewable resource acquisitions in excess of an I-937 requirement. The IOU must present evidence of its rationale for acquiring a renewable resource instead of a conventional resource, including evidence of the price associated with any externalities attributed to the conventional resource and the impact on ratepayers of the alternative resource options.