**STATE OF WASHINGTON**
UTILITIES AND TRANSPORTATION COMMISSION
*1300 S. Evergreen Park Dr. S.W., P.O. Box 47250 • Olympia, Washington 98504-7250*
*(360) 664-1160 • www.utc.wa.gov*

March 16, 2017

**NOTICE OF WORKSHOP**
**(Set for 9:30 a.m. on Wednesday, May 17, 2017)**

**AND**

**NOTICE OF OPPORTUNITY TO FILE WRITTEN COMMENTS**
**(By 5 p.m. on Monday, April 17, 2017)**

RE: Public Utility Regulatory Policies Act, Obligations of the Utility to Qualifying Facilities, WAC 480-107-105.
Docket U-161024

TO ALL INTERESTED PERSONS:

On September 1, 2016, the Washington Utilities and Transportation Commission (Commission) filed with the Office of the Code Reviser a Preproposal Statement of Inquiry (CR-101) to examine whether the Commission's rules in WAC 480-90 and WAC 480-100 related to the integrated resource plan (IRP) process should be revised to keep up with recent trends in the energy industry. In the CR-101, the Commission also provided notice that it would consider revisions to the rules in WAC 480-107 relating to utility resource acquisition as part of its IRP rulemaking for the purpose of requiring avoided costs to be listed in utility IRPs.

Due to issues identified in recent utility filings to establish annual avoided costs under the Public Utility Regulatory Policies Act (PURPA) and comments from stakeholders in a recent rulemaking workshop, the Commission will now consider whether revisions are necessary to rules in WAC 480-107 that outline a utility's obligation to a PURPA qualifying facility (QF). The Commission most recently amended these rules on April 28, 2006, by General Order R-530 in docket UE-030423.

## ISSUE DISCUSSION

At the December 7, 2016, IRP rulemaking workshop, the Commission IRP rulemaking team stated that it did not intend to address how avoided cost rates are calculated, including PURPA avoided cost rates. However, a number of stakeholder comments in the rulemaking expressed an immediate need to address PURPA rates and practices in this proceeding.[1]

In addition, these issues have arisen in the context of recent utility PURPA avoided costs filings. This winter, the Commission has approved several utility tariff filings establishing avoided costs rates following prolonged negotiations between utilities and Commission Staff. In 2015, the Commission rejected a revision to an avoided cost schedule, finding that the proposal to eliminate the separate capacity component of the avoided cost rate failed to produce rates that were fair, just, and reasonable. In its Final Order 04, the Commission stated its intent "to initiate a workshop or other suitable form of proceeding" so that a broader group of stakeholders could more fully address the issue.[2]

Given these recent discussions about PURPA avoided costs, the Commission wishes to explore whether providing further guidance on the terms, conditions, and practices for standard contracts for QFs will aid in the efficiency of the market. The Commission's rules governing PURPA avoided cost rates are broad and leave considerable room for numerous methodological approaches.[3] Furthermore, the rules are silent to a number of pertinent PURPA implementation issues, such as the minimum contract term of a standard offer.

## QUESTIONS FOR CONSIDERATION

To facilitate this inquiry, the Commission requests stakeholder feedback in these areas as described below. We also invite comment and feedback on issues we have not identified in the following questions.

### A. Avoided cost methodology:

1. What is the appropriate avoided cost methodology for calculating QF energy and capacity rates? A brief review of commonly cited literature identifies five

[1] Comments from Climate Solutions, Northwest Energy Coalition and Renewable Northwest, and the Renewable Energy Coalition.
[2] Order 04 Docket UE-144160 at ¶ 29.
[3] WAC 480-107-095.

methodologies: Proxy Unit, Peaker Method, Difference in Revenue Requirement, Market-Based Pricing, and Competitive Bidding.[4]

2. Are there multiple methodologies that may be appropriate for calculating the energy and capacity payments, depending on its circumstances? If so, what criteria should the Commission use to identify the most appropriate methodology for a specific utility, at a specific point in time?

3. Is it appropriate for a utility to calculate separate avoided capacity rates based on short-run and long-run resource requirements?

4. Should avoided costs be separated to reflect each type of resource's capacity value through a peak credit, Effective Load Carrying Capability, or some other calculation?

**B. Standard Practices**

1. What should be the maximum design capacity of a facility to qualify for the standard offer? Should the Commission differentiate between types of resources for determining the maximum design capacity of a facility to qualify for a standard contract?

2. For the purpose of setting the maximum design capacity of a facility to qualify for a standard contract, is it necessary for the Commission to set a minimum distance between QFs belonging to the same owner? If so, what is the appropriate distance or test for determining a minimum distance? Should the Commission set different minimum distance requirements based on the type of QF resource?

3. If the Commission were to specify the term length of a standard offer power purchase agreement, how should it best balance the preference of project developers for longer term agreements to mitigate their risks against the uncertainty that the avoided cost rates in effect at the time will accurately reflect the true avoided cost to the utility in the future? Should the Commission differentiate standard contract lengths based on the type of resource?

4. Should the Commission specify in rule the point in the standard offer contract process where a utility has a legally enforceable obligation to purchase a facility's output?

[4] Carolyn Elefant, *REVIVING PURPA'S PURPOSE: The Limits of Existing State Avoided Cost Ratemaking Methodologies In Supporting Alternative Energy Development and A Proposed Path for Reform*, First Impression – Last resort (Oct. 2011), http://lawofficesofcarolynelefant.com/reports-publications/.

5. Should the rates and the model standard offer agreements be disaggregated into separate tariffs?

**WRITTEN COMMENTS**

Written comments in response to this Notice and the questions listed above must be filed with the Commission no later than **5:00 p.m., Monday, April 17, 2016.** The Commission requests that comments be provided in electronic format to enhance public access, for ease of providing comments, to reduce the need for paper copies, and to facilitate quotations from the comments. Comments may be submitted via the Commission's Web portal at www.utc.wa.gov/e-filing or by electronic mail to the Commission's Records Center at records@utc.wa.gov. Please include:

- The docket number of this proceeding (U-161024).
- The commenting party's name.
- The title and date of the comment or comments.

An alternative method for submitting comments may be by mailing or delivering an electronic copy to the Commission's Records Center in .pdf Adobe Acrobat format or in Word 97 or later format on a flash drive or CD. Include all of the information requested above. The Commission will post on its web site all comments that are provided in electronic format. The web site is located at the following URL address: http://www.utc.wa.gov/161024.

If you are unable to file your comments electronically, the Commission will accept a paper document. Questions may be addressed to Brad Cebulko, at (360) 664-1309 or at bcebulko@utc.wa.gov, or Kyle Frankiewich, at (360) 664-1316 or kfrankie@utc.wa.gov.

**STAKEHOLDER WORKSHOP**

In addition to filing written comments, interested persons are invited to attend a stakeholder workshop on **May 17, 2017, beginning at 9:30 a.m., in Room 206, Richard Hemstad Building, 1300 S. Evergreen Park Drive S.W., Olympia, Washington**.

The Commission's teleconference bridge line will be available for the workshop. The Commission prefers and recommends that interested persons participate in person and share ideas in a workshop setting. However, if this imposes a hardship, interested persons may participate at the workshop via the Commission's teleconference bridge at **(360) 664-3846**. The conference bridge is limited to 22 access lines.

Stakeholders will have further opportunity for comment. Information about the schedule and other aspects of the rulemaking, including comments, will be posted on the