



DATE : September 2, 2009

RE : Franklin PUD PURPA Standards Staff Recommendations on:

- 1) Integrated Resource Planning**
- 2) Rate Design Modifications to Promote Energy Efficiency Investments**
- 3) Consideration of Smart Grid Investments**
- 4) Smart Grid Information**

Section 111(d) of the Public Utility Regulatory Policies Act was amended in the Energy Independence Security Act of 2007 (EISA) to require, among other things, that utilities with greater than 500,000 MWh of annual retail sales consider standards on integrated resource planning; rate design modifications to promote energy efficiency investments; consideration of smart grid investments; and smart grid information. The four proposed standards are discussed in more detail below, including staff's recommendations on adoption of new standards by the District's Board of Commissioners.

PURPA Requirements for Utilities in EISA 2007:

Section 532 of EISA amends Section 111(d) of the Public Utility Regulatory Policies Act, of 1978 (PURPA), Adoption of Standards, adding the following requirements:

(16) INTEGRATED RESOURCE PLANNING.—*Each electric utility shall—*
(A) integrate energy efficiency resources into utility, State, and regional plans; and
(B) adopt policies establishing cost-effective energy efficiency as a priority resource.

AND

(17) RATE DESIGN MODIFICATIONS TO PROMOTE ENERGY EFFICIENCY INVESTMENTS.—

(A) IN GENERAL.—*The rates allowed to be charged by any electric utility shall—*
(i) align utility incentives with the delivery of cost-effective energy efficiency; and
(ii) promote energy efficiency investments.
(B) POLICY OPTIONS.—*In complying with subparagraph (A), each State regulatory authority and each nonregulated utility shall consider—*
(i) removing the throughput incentive and other regulatory and management disincentives to energy efficiency;
(ii) providing utility incentives for the successful management of energy efficiency programs;
(iii) including the impact on adoption of energy efficiency as 1 of the goals of retail rate design, recognizing that energy efficiency must be balanced with other objectives;
(iv) adopting rate designs that encourage energy efficiency for each customer class;
(v) allowing timely recovery of energy efficiency-related costs; and
(vi) offering home energy audits, offering demand response programs, publicizing the financial and environmental benefits associated with making home energy efficiency improvements,

and educating homeowners about all existing Federal and State incentives, including the availability of low-cost loans, that make energy efficiency improvements more affordable.

Section 1307 of EISA amends Section 111(d) of the Public Utility Regulatory Policies Act, of 1978 (PURPA), Adoption of Standards, adding the following requirements:

(16) CONSIDERATION OF SMART GRID INVESTMENTS-

(A) IN GENERAL- Each State shall consider requiring that, prior to undertaking investments in nonadvanced grid technologies, an electric utility of the State demonstrate to the State that the electric utility considered an investment in a qualified smart grid system based on appropriate factors, including

- (i) total costs;*
- (ii) cost-effectiveness;*
- (iii) improved reliability;*
- (iv) security;*
- (v) system performance; and*
- (vi) societal benefit.*

AND

(17) SMART GRID INFORMATION-

(A) STANDARD- All electricity purchasers shall be provided direct access, in written or electronic machine-readable form as appropriate, to information from their electricity provider as provided in subparagraph (B).

(B) INFORMATION- Information provided under this section, to the extent practicable, shall include:

- (i) PRICES- Purchasers and other interested persons shall be provided with information on—*
 - (I) time-based electricity prices in the wholesale electricity market; and*
 - (II) time-based electricity retail prices or rates that are available to the purchasers.*
 - (ii) USAGE- Purchasers shall be provided with the number of electricity units, expressed in kwh, purchased by them.*
 - (iii) INTERVALS AND PROJECTIONS- Updates of information on prices and usage shall be offered on not less than a daily basis, shall include hourly price and use information, where available, and shall include a day ahead projection of such price information to the extent available.*
 - (iv) SOURCES- Purchasers and other interested persons shall be provided annually with written information on the sources of the power provided by the utility, to the extent it can be determined, by type of generation, including greenhouse gas emissions associated with each type of generation, for intervals during which such information is available on a cost-effective basis.*
- (C) ACCESS- Purchasers shall be able to access their own information at any time through the Internet and on other means of communication elected by that utility for Smart Grid applications. Other interested persons shall be able to access information not specific to any purchaser through the Internet. Information specific to any purchaser shall be provided solely to that purchaser.*

By law, electric utilities must begin considering these standards by December 19, 2008 and determine by December 19, 2009 whether it is appropriate to adopt one or more of the standards in whole or in part.

The District's Board of Commissioners, by passage of Resolution No. 1115 on December 9, 2008, established a process for consideration of adopting standards in these areas that includes:

- a) Developing a staff recommendation;
- b) Considering staff recommendations and public comments;
- c) Posting all comments and proposals received on the District's website; and.
- d) Preparing an agenda item for final decision before December 19, 2009.

STAFF RECOMMENDATIONS:

1. Integrated Resource Planning – Section 532 PURPA 111(d)(16)

Staff's recommendation is to not adopt a new integrated resource planning standard that integrates energy efficiency resources and policies that establish cost-effective energy efficiency as a priority resource. For all intents and purposes, it is not necessary because the District is already doing both. Energy efficiency (demand-side) resources have been included both in plans and in practice by the District for many years. The District's commitment to energy efficiency is demonstrated by the following:

- In the District's recently completed 2009 Integrated Resource Analysis, demand-side resources were shown to be the most cost effective on a levelized basis. The analysis recommended acquiring as much cost-effective conservation as possible.
- The District's conservation budget has increased significantly during the past two years. Expenditures used to be limited to the amount of the BPA conservation rate credit; but the District now has a generous amount authorized for utility-funded conservation measures.
- The number and types of conservation incentive programs now implemented by the District has increased as well.

There are also significant external factors to insure that integrated resource planning occurs, and that energy efficiency is included in planning and established as a priority resource:

- ESHB 1010 passed by the Washington State Legislature on electrical utility planning requires that utilities update integrated resource plans (or briefer resource plans for smaller utilities with less than 25,000 customers) every two years. These plans must contain an assessment of available conservation and energy efficiency resources.
- Citizens' Initiative 937, passed by the Washington State voters in 2006, requires utilities with over 25,000 customers to acquire all cost-effective conservation.

As the District has an aggressive energy efficiency program now, and is well positioned to meet the state legislative mandates discussed above, staff believes it is not necessary to adopt additional policies on integrated resource planning and energy efficiency resources at this time and recommends that the Commission not adopt a standard at this time under Section 532 PURPA 111(d)(16).

2. Rate Design Modifications to Promote Energy Efficiency Investments – Section 532 PURPA 111(d)(17)

The Commissioners and staff are committed to complying with the requirements of the EPAct; however, staff does not believe a new standard on development of rate design modifications to promote energy efficiency investments is necessary. The District already includes the policies and practices included in Section 532 PURPA 111(d)(17) to the extent it has the infrastructure in place to do so. Each of the policy options included in that PURPA subsection is addressed case-by-case below:

- (i) *Removing the throughput incentive and other regulatory and management disincentives to energy efficiency.* Staff Comment: The District has made significant investments in energy efficiency projects recognizing that total consumer load, and therefore retail revenues, is reduced as a result. The District recognizes that the cost of expensive generation resources is delayed or avoided by investing in energy efficiency.
- (ii) *Providing utility incentives for the successful management of energy efficiency programs.* Staff Comment: The District is aggressive in this area.
- (iii) *Including the impact on adoption of energy efficiency as one of the goals of retail rate design, recognizing that energy efficiency must be balanced with other objectives.* Staff Comment: The District utilizes a citizens' Rate Advisory Committee, comprised of representatives of each customer class, to review and make recommendations on proposed rate actions. The Rate Advisory Committee takes a number of factors into account when reviewing proposed rates, including but not limited to the District's financial position, system reliability, power costs and market uncertainty, energy efficiency, and economic development incentives and disincentives.
- (iv) *Adopting rate designs that encourage energy efficiency for each customer class.* Staff Comment: The District's rate design does not provide a disincentive to energy efficiency. For example, it does not offer declining block rates in its current design. In the future, when advanced metering infrastructure is installed, the District will consider energy efficiency incentives in its rates, such as time-of-use pricing.

- (v) *Allowing timely recovery of energy efficiency-related costs. Staff Comment: The District recognizes that energy efficiency investments often have higher up-front costs than alternative supply-side resources and that the benefits are recognized over multiple years.*

- (vi) *Offering home energy audits, offering demand response programs, publicizing the financial and environmental benefits associated with making home energy efficiency improvements, and educating homeowners about all existing Federal and State incentives, including the availability of low-cost loans, that make energy efficiency improvements more affordable. Staff Comment: The District already engages in all of these practices for all of its customer classes, not only homeowners.*

To recap, staff recommends not adopting a new standard for rate design modification to promote energy efficiency investments as the District currently includes most policies and practices outlined in this section of the PURPA.

3. Consideration of Smart Grid Investments – Section 1307 PURPA 111(d)(16)

Staff recommends adoption of this standard as it is already a practice by the District. Prior to undertaking investments in nonadvanced grid technologies in system improvements, District staff considers applicable smart grid system technologies based on total costs, cost-effectiveness, improved reliability, security, system performance, and societal benefits. Furthermore, the standard is applicable to the District, which is participating in local and regional efforts to fund and install smart grid infrastructure that would benefit the District and its customers.

4. Smart Grid Information – Section 1307 PURPA 111(d)(17)

To the extent possible, the District provides to consumers in their monthly bills or through the Internet some information included in this standard including usage and sources of power provided by the District. The majority of the information will not be available until advanced metering infrastructure is in place, and some may not be available then. Because of the uncertainty of timing and availability of the items listed in this subsection of PURPA, staff recommends not adopting a standard on smart grid information as outlined in Section 1307 PURPA 111(d)(16).