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**SUBSTITUTE SENATE BILL 6004**

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**State of Washington 64th Legislature 2015 Regular Session**

**By** Senate Energy, Environment & Telecommunications (originally sponsored by Senators Braun, Honeyford, and Hatfield)

AN ACT Relating to the acquisition of coal displacement power; adding a new section to chapter 80.04 RCW; and creating a new section.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  It is the intent of the legislature to provide sufficient certainty and fairness in the electric generation market to expedite transition from coal transition power that was purchased under arrangements that allowed the citizens of the state to benefit from closure of a coal-fired generation plant. To accomplish that objective, the legislature intends to allow electrical companies that participated previously in the retirement of a coal-fired generation plant within Washington state by purchasing coal transition power to receive the same rate of return on power purchase agreements that will displace the coal transition power purchase agreements.

NEW SECTION. **Sec.**  A new section is added to chapter 80.04 RCW to read as follows:

The following provisions are applicable to any regulatory filing before the commission by an electrical company that has entered into an agreement for coal displacement power:

(1) The commission must approve a power purchase agreement for acquisition of coal displacement power pursuant to this section only if the commission determines that, considering the circumstances existing at the time of such a review: The terms of such an agreement provide adequate protection to ratepayers and the electrical company during the term of such an agreement or in the event of early termination; and the resource is needed by the electrical company to serve its ratepayers and the resource meets the need in a cost-effective manner as determined under the lowest reasonable cost resource standards under chapter 19.280 RCW, including the cost of the power purchase agreement plus the equity component as determined in this section. As part of these determinations, the commission shall consider, among other factors, the long-term economic risks and benefits to the electrical company and its ratepayers of such a long-term purchase.

(2)(a) Upon commission approval of an electrical company's power purchase agreement for acquisition of coal displacement power in accordance with this section, the electrical company is allowed to earn the equity component of its authorized rate of return in the same manner as if it had purchased or built an equivalent plant and to recover the cost of the coal displacement power under the power purchase agreement. Any power purchase agreement for coal displacement power that earns a return on equity may not be included in an imputed debt calculation for setting customer rates.

(b) For purposes of determining the equity value, the cost of an equivalent plant is the least cost purchased or self-built electric generation plant with equivalent capacity. In determining the least cost plant, the commission may rely on the electrical company's most recent filed integrated resource plan. The cost of an equivalent plant, in dollars per kilowatt, must be determined in the original process of commission approval for each power purchase agreement for coal displacement power.

(c) The equivalent plant cost determined in the approval process must be amortized over the life of the power purchase agreement for acquisition of coal displacement power to determine the recovery of the equity value.

(d) The recovery of the equity component must be determined and approved in the review process set forth in this section. The approved equity value must be in addition to the approved cost of the power purchase agreement.

(3) Authorizing recovery of costs under a power purchase agreement for acquisition of coal displacement power does not prohibit the commission from authorizing recovery of an electrical company's acquisition of capacity resources for the purpose of integrating intermittent power or following load.

(4) For the purposes of this section, "coal displacement power" means: (a) Power provided pursuant to a power purchase agreement to an electrical company that purchased coal transition power under a power purchase agreement prior to the effective date of this section; (b) where the power purchased is intended to supply a similar quantity of load as purchased under the coal transition power agreement; and (c) where the power purchased is generated in the affected community under RCW 80.80.100.

(5) Neither this act nor the commission's approval of a power purchase agreement for acquisition of coal displacement power that includes the ability to earn the equity component of an electrical company's authorized rate of return establishes any precedent for an electrical company to receive an equity return on any other power purchase agreement or other power contract.

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