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August 4, 2010

MEMORANDUM

TO: Power Committee

FROM: Jeff King and Sandra Hirotsu

SUBJECT: Briefing regarding California Senate Bill 722

California's renewable portfolio standard (RPS) is an important driver of renewable resource development, especially wind power, in the Northwest. Over 40 percent of the 997 MW of Northwest wind capacity placed in service in 2009 was owned by, or contracted to, California utilities. In 2010, this percentage is expected to increase to 66 percent. In addition, renewable energy credits (RECs) from wind projects owned by, or contracted to, Northwest utilities are being sold under short-term contracts to California utilities.

The development of wind power in the Northwest to serve the California RPS has produced local economic benefits in the form of employment, demand for services, increased tax base and landowner royalties. However, California's flexible delivery requirements have likely reduced motivation for investment in intertie transfer capacity, dynamic scheduling capability, and in balancing reserves. "Dumping" of energy from wind projects supplying RECs to California may increase the frequency and duration of periods of low or negative pricing in the Northwest wholesale power markets, impacting Bonneville's secondary hydropower revenue.

The California Legislature is considering Senate Bill 722 (SB 722) which will codify the 33 percent Renewable Portfolio Standard (RPS) currently in effect pursuant to Executive Orders issued by Governor Schwarzenegger. Given that the Executive Orders could be revoked or rescinded by the next Governor, SB 722 seeks to establish the 33 percent RPS as state law. The bill would also extend RPS requirements to publically-owned utilities. While codification of the 33 percent RPS and its extension to publically-owned utilities will likely strengthen the demand for qualifying energy from the Northwest, other provisions of the bill may help mitigate issues resulting from current development, marketing, and operational practices.

In preparation for discussion, staff is preparing a paper that provides a brief background of SB 722, highlights key sections of the bill, and identifies potential implications of those sections for the Northwest. The paper will be forwarded to committee members early next week.

California Senate Bill 722 and Possible Effects on Northwest Renewable Energy Development

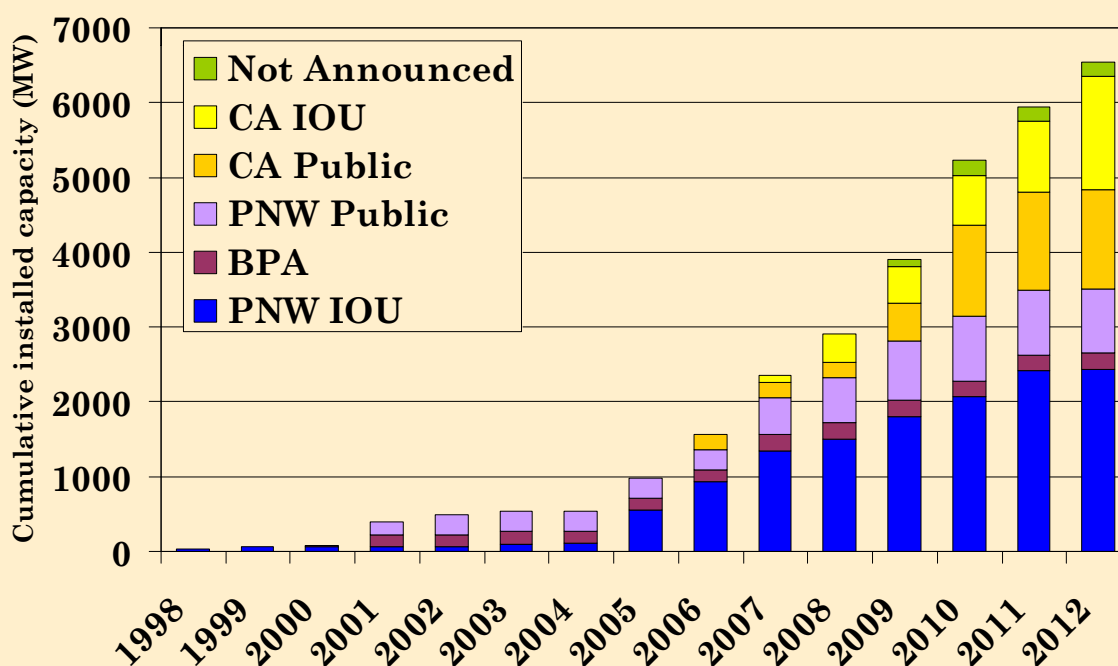
Sandra Hirotsu & Jeff King
Northwest Power & Conservation Council
August 2010



8/12/2010

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Customers^(a) of Northwest wind power

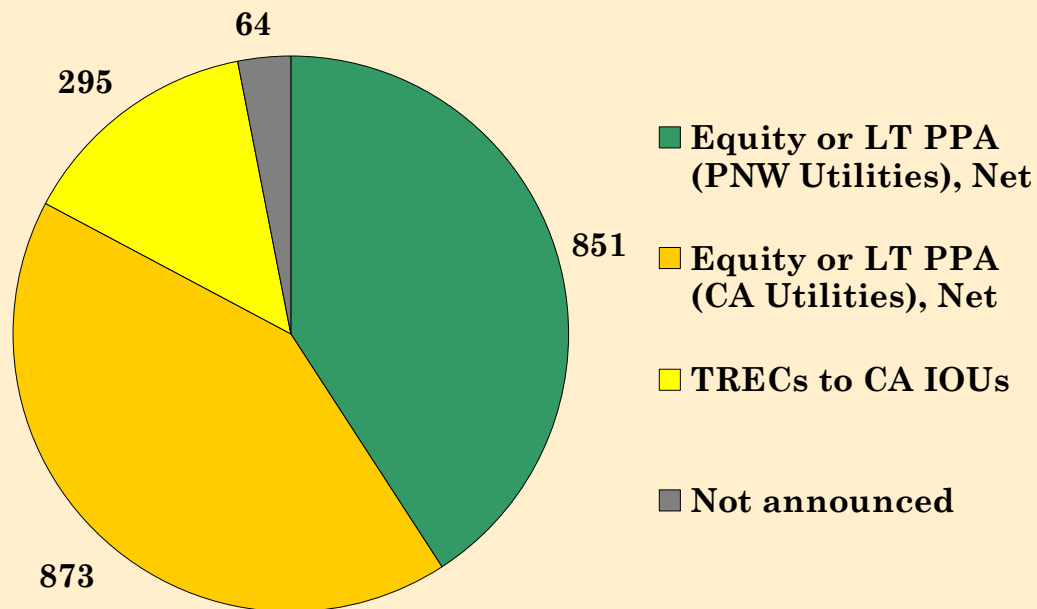


(a) Equity ownership and PPAs

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PNW wind: Equity ownership or long-term contracts vs. TRECs (Jan 2011, aMW)



California RPS Policy

	CA RPS Legislation (Current)	Executive Order	CPUC March 2010 Decision (Stayed May 2010)	SB722
RPS Target	20% by 2010	33% by 2020	--	33% by 2020 (Statutory)
Subject Entities	IOUs & ind. retailers mandated; Munis encouraged	IOUs and independent retailers	--	All retail sellers (inc. Municipals)
Deliverability Requirements	Equivalent energy, any source, within calendar year (CEC rules?)	--	75% directly interconnected or dynamically scheduled	75% Directly interconnected or dynamically scheduled
TREC limits	Not defined??	--	25% (PG&E, SCE & SDG&E only)	10%
TREC Definition	Authorized but not defined	--	All out-of-state unless dynamically scheduled	Up to CPUC

Possible impacts of SB722 on the Northwest

- Effect on market for qualifying resources is unclear:
 - ➡ 33 percent RPS
 - ➡ Municipal utilities mandated to comply
 - ➡ 75% direct connection or dynamically scheduled
 - ➡ 10% max TRECs
 - ➡ Balance shaped & scheduled
- May encourage transmission investment
- May reduced demand for Northwest balancing capacity
- May temper impacts on Northwest power market
 - Negative price episodes
 - Volatility