

Questions and Answers about the “Colstrip Proceeding”

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What is the Colstrip coal plant?

Colstrip is a coal plant in Colstrip, Montana with four coal-fired boilers that generate approximately 2,100 megawatt (MW) of electricity. It is owned by Washington utilities: Puget Sound Energy (PSE), Avista Utilities and Pacific Power, as well as Portland General Electric (Oregon), Northwestern Energy (Montana) and Talen Energy (Pennsylvania). PSE and Talen jointly own Units 1 and 2 (about 620 MW), and all six energy companies own Units 3 and 4 (about 1,480 MW).

What is the “Colstrip proceeding?”

The Sierra Club, Climate Solutions, and Washington Environmental Council commenced this proceeding before the Washington Utilities and Transportation Commission (Commission) to determine if continued investment in the older Colstrip Units 1 and 2 is economically prudent for PSE customers when you take into account the full range of liabilities. The Commission will hear in a formal adjudication evidence of the economic and environmental impact of those units and whether PSE should continue to invest in them.

Why is this important?

Thousands of PSE customers and hundreds of businesses, local governments and legislators and other public officials have called upon PSE to move beyond coal. They want to know the full extent of financial risk to ratepayers from Colstrip. Transitioning to cleaner and cheaper resources will provide enormous climate and environmental benefits, and provide thousands of local jobs. This proceeding will allow PSE and all stakeholders an opportunity to finally resolve this fundamental question: Is continued investment in Colstrip worth it for PSE’s customers?

Why now?

In PSE’s 2011 long-range energy plan, called its Integrated Resource Plan (IRP), stakeholders called for a more thorough examination of Colstrip’s costs. In PSE’s 2012 rate case, questions were raised about continued investment in Colstrip, and the Commission recommended that PSE conduct a more thorough examination in its 2013 IRP. Many issues remained unresolved in the 2013 IRP so the Commission suggested the Colstrip proceeding in February 2014. Instead of commencing such a proceeding, in 2015, PSE pushed legislation that would have allowed it to acquire all of the Colstrip plants from Talen as part of a retirement effort (HB 2002 and SB 5874) but that legislative effort failed. In July 2015, using the Commission’s suggestion, Sierra Club, Climate Solutions and Washington Environmental Council filed a petition to commence this proceeding.

What are the benefits?

1. Benefits to customer rates

The primary benefit is answering the question about whether on-going ratepayer-funded investment in Colstrip Units 1 and 2 is appropriate. The amount at stake is substantial. To continue to operate those units, the owners would have to upgrade emission controls for regional haze, air toxics and likely sulfur

dioxide. The toxic coal ash waste ponds are increasing clean-up costs the longer they operate. Already, PSE estimates existing clean-up costs to be up to \$500 million or more just for their share of Colstrip. Fuel costs and production costs are increasing. Last but not least, Colstrip will finally have to account for its massive climate pollution.

2. Benefits to the climate

Together, all four units at Colstrip produce up to 15 to 17 million tons of carbon emissions per year, equal to the emissions of half of all passenger cars in Washington. The Climate Legislative and Executive Workgroup identified coal-based electricity as Washington's second largest source of climate pollution, and most of this comes from Colstrip. The EPA's Clean Power Plan mandates that Montana reduce 47 percent of its emissions from power plants and Colstrip's carbon emissions account for 85 percent of carbon emissions regulated by the Clean Power Plan in Montana. Transitioning from Colstrip Units 1 and 2 to clean energy will go a long way for helping both Montana and Washington achieve their climate obligations. Transitioning all of Colstrip to clean energy will result in the largest greenhouse gas reduction in the Northwest.

3. Benefits to the economy

Synapse Energy Economics examined the job creation potential for clean energy (wind, solar and energy efficiency) in Washington. See <http://synapse-energy.com/sites/default/files/SynapseReport.2013-10.SC.WA-Employment-Effects.13-037.pdf>. They found that clean energy provided more jobs than natural-gas based electricity since we import all the natural gas and none of the generation units are built in Washington. From this study, it is clear that thousands of new jobs will be created in Washington as we transition from coal to clean energy. The hundreds of millions of dollars currently sent out-of-state can instead be used to build a 21st century electricity system in Washington.

4. Benefits to PSE

The Colstrip proceeding can provide PSE with a rare business advantage. Private utilities in Washington do not receive pre-approval of capital expenses. Under traditional rate-making practices, a utility makes the capital investment up front and learns after a rate case whether the Commission will allow recovery of the costs from its customers. This Colstrip proceeding would provide PSE with advanced knowledge of whether it should invest or not in Colstrip thus providing a rare business advantage. This special proceeding – while a departure from traditional Commission practices – is appropriate in this unique case because of Colstrip's extensive and complex liabilities.

Are there any risks in commencing this proceeding?

Actually, the purpose of the proceeding is to identify the risks in continued operation of Colstrip so we can address and avoid them.

However, some have raised the concern that if PSE ends its involvement in Colstrip then Talen will simply take over PSE's interest and keep the plant running. While it may be true that the Commission only has jurisdiction over PSE, and not Talen, it seems highly unlikely that Talen could go it alone. Financial reports indicate that Talen's investment in Colstrip is not economic. Two separate and

independent economic analyses assert Colstrip is a losing investment for Talen. See <http://ieefa.org/wp-content/uploads/2015/06/A-BLEAK-FUTURE-FOR-COLSTRIP-UNITS-1-AND-2.pdf> and <https://neo.ubs.com/shared/d1YHvGoHR7/> beginning on page 16.

When the previous owner Pennsylvania Power tried to sell its share of Colstrip plus an additional 175 MW of their Corette coal plant to fellow Colstrip owner Northwestern Energy, Northwestern provided an estimate to the Montana Public Service Commission valuing Pennsylvania Power's Colstrip assets (507 MW) combined with the Corette assets (175 MW) as worth *negative \$340 million*. Pennsylvania Power spun off their Colstrip assets into the new Talen Energy because they viewed their Montana coal assets as a liability.

If the Washington Commission withholds ratepayer money for continued capital expenses at Colstrip, both PSE and Talen will have strong financial incentives to retire Units 1 and 2.

Who are the potential intervenors in the proceeding?

The Attorney General's Office of Public Counsel has already intervened and other ratepayers groups may participate as well. Additional environmental and clean energy organizations are expected to weigh in. Local governments also may be interested in participating to protect their citizen/ratepayers and to achieve their local climate goals.

Wouldn't it be better to resolve all these issues with legislation?

PSE may seek to have legislation passed in 2016 addressing the Colstrip issues. Even if that happens, the Colstrip proceeding is important because it will develop a factual record that legislators can use as the basis for their decision-making. In 2015, the legislation bogged down in large part due to disputes of about facts and the level of complexity associated with Colstrip. This proceeding will address both concerns.

Next steps and more information

If entities want to intervene in the Colstrip proceeding, the deadline is likely to be this September 2015. Information about the proceeding is listed on the Commission website at utc.gov.wa. Once on the home page, enter Docket # 151592 on the docket search. You may also contact Doug Howell at the Sierra Club for more information at doug.howell@sierraclub.org