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Hearing on
State Perspectives: Questions Concerning EPA's Proposed Clean Power Plan

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Chairman Whitfield, Ranking Member Rush, and members of the Committee, I am David Danner, chairman of the Washington Utilities and Transportation Commission (UTC), an independent regulatory agency charged with ensuring that Washington state's investor-owned energy utilities provide services that are affordable, reliable, and safe. Thank you for the opportunity to share my thoughts on the Environmental Protection Agency's (EPA's) proposed Clean Power Plan.

At the outset, I want to commend the administration and EPA for their leadership in confronting the problem of carbon pollution. In Washington state, we are already seeing first-hand the effects of this pollution. Ocean acidification is severely affecting our shellfish industry. Warmer winters are allowing forest and crop pests to reproduce longer and suffer less winter die-off; as a result pine bark beetle populations are booming, and these beetles are now devastating large tracts of forest land in British Columbia and Northeast Washington. Large forest fires (i.e., those burning more than 500 acres) have increased from an average of six per year in the 1970s to 21 per year in the last decade. The costs of fighting forest fires are expected to rise to $75 million per year by the 2020s – 50 percent higher than current expenditures – and that does not

factor in other economic impacts such as lost timber value, lost recreational expenditures, human health costs, and habitat loss.

With increased temperatures, we can expect other impacts in the years to come. Rising sea levels will require relocating shore homes and businesses, and hardening our urban seawalls and shipping operations. Urban water supplies that rely on the storage of water in mountain snowpack will see less water coming into their reservoirs in late spring and early summer. These same reductions in summer stream flows will adversely affect salmon populations, farmers who rely on irrigation, and summertime hydropower production.

Clearly, carbon pollution is a pressing matter for the state of Washington, and we have been eager for strong federal action to address it. While congressional action to address carbon pollution could provide more comprehensive and direct policy, in the absence of such action it is appropriate that EPA use the tools at its disposal to address this issue. By using Section 111(d) of the Clean Air Act, EPA has developed a proposal that I believe creates an effective structure for achieving significant carbon emission reductions in the energy sector.

The key to EPA's proposed rule is the flexibility it gives to states in developing plans to reduce power plant emissions of carbon pollution. While I am concerned about the environmental consequences of carbon pollution, at the end of the day I am an economic and safety regulator, and I must be confident that the final rule does not compromise electric system reliability or impose undue costs on consumers. To its credit, EPA undertook considerable outreach to states; I personally met with EPA officials in Portland, Seattle, and Washington, D.C., and I believe they listened to, heard, and understood my concerns. That said, we must keep in mind that at this point EPA has given us a proposal, not a finished product, and has requested that we give their proposal a hard look and provide comments and recommendations. The UTC

is in the process of reviewing the proposed rules, consulting with other Washington state agencies, our regulated utilities, and other stakeholders to ensure that Washington can achieve the emissions reductions EPA has proposed, and do so without compromising system reliability or raising costs significantly. At this point, we are cautiously optimistic that we can.

Under EPA's proposal, each state was given a unique target based on a combination of four "building blocks": (1) heat rate improvements averaging 6 percent for coal-generating units; (2) re-dispatch of natural gas units of up to 70 percent; (3) increased use of renewable energy and continued use of nuclear power plants that are economically challenged, and (4) increased demand-side energy efficiency. States can use this or other approaches that work for their state to meet the standard.

Washington's electricity sector has a relatively small carbon footprint compared to other states, but that does not mean that Washington got off easily. EPA assigned Washington the highest percentage reduction target of any state, 72 percent. To achieve its target, Washington must significantly reduce the emissions from fossil-fueled power, increase its percentage of load served by non-hydro renewable energy, and increase its energy efficiency efforts to achieve 1.5 percent of annual load served by conservation. In each of these areas, we believe Washington is well-positioned and can meet its target, assuming EPA assumptions of Washington's reduction potential are accurate.

Indeed, Washington state has already taken action to address carbon pollution in its own laws and policies. In 2011, Governor Christine Gregoire signed legislation putting into effect an agreement under which TransAlta Corp. would close its 1,340-megawatt Centralia coal plant, with the first unit closing by 2021 and the second in 2025, thereby allowing an orderly transition that avoided immediate layoffs and disruption to the local economy. Washington voters in 2006

approved by initiative a requirement that its electric utilities pursue "all cost-effective conservation" and, by 2020, meet at least 15 percent of their load with non-hydro renewable energy such as wind, solar, and geothermal. During the 2012-13 biennium, the last for which the utilities have reported data, the state's investor-owned utilities saved nearly 1 million megawatt hours of electricity – enough to power about 77,000 homes, or all the residents of Tacoma, Washington, for a year. Because investor-owned utilities serve only about half of the state's residents and businesses, the statewide number is considerably higher. The state's Renewable Portfolio Standard has also seen significant results. In 2012, the state's investor-owned utilities – (again, serving about half the state) generated or acquired 2.35 million megawatt hours of clean electricity, enough to power 183,000 homes for a year.

I am aware of arguments that reducing carbon pollution will adversely impact the nation's economy. However, in Washington state's experience, this has not been the case. When Washington voters approved the renewable energy standards in 2006, opponents argued that passage would increase energy costs by $185 million to $370 million per year. Just last year, those calling for repeal of the standard claimed that the initiative is costing the average homeowner $50 a year. However, the companies' filings with the UTC last year told a very different story. They showed that complying with the act cost about $35 million – an increase to the average bill of 1.2 percent, or a little more than $1 a month. Even assuming another $35 million for the half of Washington residents served by publicly-owned utilities, the initiative's costs are still less than half of the lowest estimates put forward by the initiative's opponents. Moreover, according to Renewable Northwest, a Portland-based group tracking renewable energy deployment in the region, renewable energy developers have invested more than $8 billion in Washington, creating some 3,800 jobs. The conservation standard, too, is having

dramatic positive results. By definition, cost-effective conservation is less costly than any other energy resource, and conservation reduces consumers' monthly bills. At the same time, implementation of this standard has created thousands of jobs. Washington Employment Security Department data for 2011 listed 37,449 jobs involved with "increasing energy efficiency," 96 percent of those in the private sector. Based on Washington state's experience, I believe the proposed rule, when finalized and implemented, will spur further investment nationwide in non-carbon or low-carbon resources, and in demand-side energy efficiency. This greater investment, in turn, will spur technological advances and, in turn, lower costs to consumers.

I do not want to suggest that meeting the EPA's target will be easy, or that the proposed rule is not complex. As I noted earlier, the UTC is analyzing EPA's proposed targets to ensure that the agency did not overstate Washington's potential for carbon reductions in the energy sector and thereby set a target our state cannot reach using the tools prescribed. But while we will take a hard look at the numbers, we believe the structure of the proposed rule is sound.

Again, flexibility is key. The interconnectedness and interdependencies inherent in the electric grid complicate state-specific strategies for carbon pollution reductions. But EPA does not ignore those complexities. It has given state broad discretion in achieving the targets. It encourages states to work regionally, and Washington is ready and willing to engage with others in the Northwest to identify the best strategies to reduce carbon pollution. Unforeseen events will surely arise from time to time, and I remain confident that EPA's commitment to flexibility will ensure that system reliability is not compromised.

Thank you for the opportunity to testify before you today. I welcome any questions you may have.