Sierra Club statement on settlement

The Sierra Club supports this landmark settlement agreement with Puget Sound Energy (PSE). This agreement provides enormous economic, environmental and equity benefits. Few agreements so comprehensively achieve this triple bottomline. This agreement also provides more certainty for PSE ratepayers and the community of Colstrip, and serves as a model for the other Colstrip owners.

Seven key provisions for the Sierra Club are critical to this settlement:

1. The accelerated depreciation schedule for Colstrip Units 3 and 4 of December 2027 enables a more realistic retirement date of 2025. By accelerating the depreciation schedule from 2045 to 2027, PSE can now face the reality of the national and regional trends that make Colstrip uneconomic. One critical component of this agreement is reiteration of the industry and regulatory standard that a depreciation schedule “assumes a remaining useful life” of the plant.
2. PSE is making a crucial and laudable step toward a fair and orderly transition for the Colstrip workers and community by setting aside $10 million for transition with half of that money coming from PSE shareholders. We applaud PSE and call upon the other Colstrip owners to do the same.
3. PSE is delivering on the funding plan that was mandated by the state legislature in 2016 to ensure money is set aside for cleanup of the toxic coal ash waste ponds for Colstrip Units 1 and 2.
4. PSE is now establishing a critical precedent of designating money for cleanup of the coal ash waste ponds for Colstrip Units 3 and 4. The other Colstrip owners need be responsible and do the same.
5. PSE has agreed to yearly reporting requirements on Colstrip to keep the UTC and stakeholders updated on retirement dates, the impact of retirement, cleanup costs for the toxic coal ash waste ponds, the sufficiency of funds for cleanup, and replacement power for Colstrip. This creates a level of transparency that no other Colstrip owner has embraced. We expect the other Colstrip owners to do the same.
6. PSE has created a workgroup to be managed by the UTC on the use of the transmission line for Colstrip Units 1 and 2. This allows transparency, public scrutiny and engagement which will facilitate future uses for the transmission line once Colstrip Units 1 and 2 retire. Overcoming transmission barriers will provide a critical opening for Montana wind development which could be exported to Washington. Washington must diversify its renewable portfolio to become carbon free and Montana wind is the best complement to our existing renewable resources. Addressing the transmission barriers for the Colstrip line also ensures that PSE ratepayers are realizing the economic benefit of this valuable asset.
7. In addition to PSE extending is shareholder contribution of $100,000 for weatherization programs and maintaining existing fund of $500,000/annually, PSE is providing a one-time $2 million addition for weatherization.

Setting the depreciation schedule for Colstrip Units 3 and 4 at December 2027 is a critical step for enabling retirement. It is clear from the current economic, environmental and political landscape that 2025 is a more likely retirement date. King County, half of PSE’s service territory, passed their Strategic Climate Action Plan that calls for no more coal by 2025. Now the City of Olympia has passed a similar resolution. Dozens of elected officials across the service territory have testified in favor of a 2025 retirement date. By removing 18 years off the depreciation schedule for the remaining Colstrip units, PSE and the Washington State Utilities and Transportation Commission are enabling a responsible transition to a coal-free Washington State.

Economic benefit for PSE ratepayers

One of the critical lessons learned from Colstrip Units 1 and 2 was that when stakeholders fully understood the economic costs of those units, the more quickly the retirement date was realized. Originally, PSE and other parties believed those units would retire in 2035, then 2030, then 2025. Now it is 2022 or earlier. We are about to repeat that mistake with Units 3 and 4. The economic reality of a 2025 retirement date for Colstrip Units 3 and 4 is increasingly obvious. To the extent that stakeholders do not fully understand the trends, they are putting PSE ratepayers at risk. In fact, PSE’s most recent analysis reveals just that: Colstrip Units 3 and 4 will not be economic in the near future.

It is time to acknowledge economic realities. When all parties agreed in the 2007 rate case to extend the debt on Colstrip Units 3 and 4 to 2045, they began a now 10-year process of ratepayers under-paying the debt on those units. Now ratepayers need to reverse that trend to catch up on under payments, and a 1 percent rate increase is a very modest price to pay.

But it goes beyond that. Ratepayers do not want to be paying off debt in 2026 and 2027 if the plant retires in 2025. That would require ratepayers to pay twice because of the need for replacement power. It is in the ratepayers’ economic interest to get this financial liability behind them as soon as possible.

Many drivers are pushing this economic reality. The plant is aging and becoming more expensive. Avista recently filed a rate case in Idaho that revealed Colstrip owners expect to pay $160 million in 2018 through 2020 just to keep the plant running. Those costs will increase over time creating increasing financial costs for ratepayers.

The price tag for cleaning up the toxic coal ash waste ponds will continue to grow over time. While the Colstrip owners are now under a legal mandate to alter the disposal system for the toxic waste, the underground toxic plume continues to expand creating increasing cleanup costs. The UTC investigation concluded that the longer the Colstrip plant stay opens, the greater the cost of cleanup.

PSE now finds that even modest carbon pricing will make the units uneconomic. Regardless of whether a carbon price comes from a new federal administration, Congress or Washington State, most experts agree that climate accountability is inevitable. We must assume a carbon price and plan accordingly.

According to the majority of Colstrip owners, federal regional haze requirements will likely be required around 2025. Recent cost estimates by Colstrip owner PacifiCorp estimated nearly $250 million in capital costs for units that are about two-thirds the size of Colstrip Units 3 and 4. These estimates are likely low and proportional costs for Colstrip could be $400 million in capital costs alone. Additional operational costs could be in the tens of millions of dollars each year. It is simply uneconomic to invest so heavily in Colstrip in this timeframe.

Financial analysts have concluded that Westmoreland, the owner of the adjacent Colstrip mine, may be teetering on the edge of bankruptcy in the next couple of years. Westmoreland reported to the Securities and Exchange Commission that the “estimated mine life for current plans” is 2024 for the Colstrip mine. Westmoreland is applying for three separate permits to expand the mine to gain access to less expense coal. However, state and federal law require Westmoreland to restore the land to previous conditions before expanding. The mine has destroyed 26,000 acres of habitat, polluted groundwater, and dried up part of a stream. Restoration is unlikely or impossible. Any expansion would be unlawful. Westmoreland is the only economically-viable source of coal for Colstrip and its future is tentative resulting in creating price increases and PSE ratepayer liability.

Environmental benefits

According to the U.S. Environmental Protection Agency, in 2015, Colstrip was the third largest climate polluter in the country. In 2016, it was the largest climate polluter in the west. Annual carbon emissions for all four units average approximately 15 million tons, equal to approximately 3 million cars. No current initiative in the Northwest will create as many as carbon reductions as retiring Colstrip. Removing the onerous debt for PSE is the single most important step to move closer to retirement.

Colstrip has approximately twice as many nitrogen oxide and sulfur emissions as the combined total of the next nine largest air polluters in Montana. Colstrip has 800 acres of leaking toxic coal ash ponds where this toxic plume continues to expand to the aquifer. And as stated above, continued reliance on the Colstrip mine further destroys habitat and pollutes groundwater.

Such highly destructive environmental impacts are completely unnecessary when cheap and abundant renewable energy and energy efficiency continue to demonstrate their economic advantages.

Equity benefits

Sierra Club is committed to addressing concerns of communities that endure economic hardship from the retirement of coal plants. In 2011, Sierra Club was the primary organization insisting that the retirement of the TransAlta coal plant in Centralia, Washington include funding for community transition. That commitment applies to Colstrip and we have made this clear to PSE.

We applaud PSE for providing $10 million for community transition at Colstrip. Additional accolades are due because half of this money comes from PSE shareholders. This is a model that other Colstrip owners now need to replicate.

PSE supported Washington legislation that mandated setting aside money for cleanup of the toxic coal ash waste sites for Colstrip Units 1 and 2. Now it has a plan to ensure those funds are available. In addition, it is designating money for the cleanup of the coal ash ponds for Units 3 and 4. This is a first among Colstrip owners and ensures a more viable future for the town of Colstrip and surrounding areas. Without clean, usable water in arid Eastern Montana, future economic viability is at risk.

The low-income energy assistance is critical. With recent budget cuts, services for low-income families are at risk. The $2 million for weatherization programs helps fill a significant shortfall of critical funding.

The reporting requirements create their own equity. Colstrip owners have not been forthcoming with essential data to help plan for a fair and orderly transition. Now PSE distinguishes itself by instituting yearly reporting requirements on retirement plans, cleanup and funding, and replacement power. The remaining Colstrip owners need to follow suit.

This settlement represents a landmark in achieving economic, environmental and equity benefits. While critical work is yet to be achieved, this is the single most important step in: protecting PSE ratepayers; beginning a fair and orderly transition for the Colstrip community; retiring the largest climate polluter in the Northwest; achieving additional environmental benefits; helping low-income ratepayers; and creating open and honest processes.