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Amanda Maxwell
Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Re: Docket UE-210804—PacifiCorp's Comments

PacifiCorp dba Pacific Power & Light Company (PacifiCorp) appreciates the opportunity to provide comments regarding development of the Washington Utilities and Transportation Commission (Commission) jurisdictional specific cost-effectiveness test for distributed energy resources (DER) incorporating the Clean Energy Transformation Act.

As requested in the Notice of Opportunity to File Written Comments issued on November 28, 2022, PacifiCorp provides responses to the questions below.

1. **Are changes to the current cost-effectiveness methods used by Washington investor-owned utilities and Commission standard practice necessary to ensure consistent evaluation of DERs? If yes, is a jurisdictional specific test necessary or is there another standard test that could be adopted that would appropriately evaluate DERs applying the Commission's policy goals?**

PacifiCorp has no objection to the Washington (WA) Test. The Company believes that the WA Test generally represents a logical construct and appreciates that it allows practitioners to recycle much of the analytical infrastructure already developed over many years of benefit-cost analysis (BCA). The Company appreciates that under the proposed WA Test, we can be more inclusive in the consideration of additional material impacts from various DER programs.

One central issue with BCA is not the framework applied, but how it is interpreted and applied by different stakeholders. As evident in Appendix 2 of the Straw Proposal, there are already significant differences in understanding and application of the current cost-effectiveness tests in WA. Though the WA Test framework is logical, the addition of several new impact streams, many of which will be challenging to quantify and monetize, creates a risk that inconsistent application of test concepts and differences in methodology will make the BCA process cumbersome and expensive, and the results difficult to understand. This outcome could slow the pace of development of new programs to meet state policy goals and create additional layers of complexity for stakeholders.

The Company believes that common agreement on acceptable proxy values and analytical methodologies will be important steps to ensure BCA consistency, transparency, and efficiency in WA. Some important, but hard-to-quantify, impacts such as host-customer non-energy benefits, resilience benefits and others will require developing new, complex analysis and accessing data not readily available to utilities. Evaluating these impacts could be a significant undertaking and may merit a centralized process, or at least collaboration across utilities and other agencies. Other impacts, such as market price effects and changes to host customer asset value, will be similarly challenging to calculate, but may ultimately have little influence on test results. Establishing proxy values for these impacts will allow resources to be dedicated to more important analysis, and make test results easier to explain and understand. PacifiCorp appreciates that Staff have dedicated time in 2023 to reviewing measurement methodologies with stakeholders in 2023, and looks forward to discussing these issues in greater detail.

Utility System Impacts – Table 3 and 4 in the straw proposal

2. General feedback on electric utility system impacts and gas utility system impacts.

Our marginal price for power is typically flat during off-peak times, indicating that minor changes in load have no impact on market price. There may be some impact from demand response, since we do see prices rise during peak times. However, any changes would likely be dwarfed by changes in the regional resource mix, for example, higher penetration of utility-scale solar is likely to have a greater market price impact than distributed solar, just based on its magnitude. Such regional electricity mix changes are uncertain, but already part of the market price forecast. As a result, impacts due to DER, however, are likely minimal and would be challenging to accurately measure given the hypothetical nature of the question "what would have occurred in the absence of the program?" Determining whether this impact stream is a benefit or cost further complicates the question. In the event PacifiCorp is a net seller of power on the market, a decrease in market electric price may not necessarily be a benefit to Washington customers.

3. The definition of the Environmental Compliance utility system impact used in the straw proposal is "compliance costs associated with environmental regulations; net of those already embedded in Energy Generation."

a. How should the environmental compliance impact be defined for Washington state?
b. Are there particular impacts under this category that need to be discussed in more detail?
c. For each utility, what Environmental Compliance impacts are embedded within other impact values and where are they accounted for?

The definition of environmental compliance should be narrowed to exclude costs related to meeting the Renewable Portfolio Standard and Clean Energy Transformation Act, since these are called out separately in the straw proposal. Chapter 3 of PacifiCorp's 2021 IRP outlines regulatory compliance activities that are accounted for in the planning environment. Resources identified in our preferred portfolio are included under compliance parameters to ensure that the Company's preferred portfolio complies with environmental laws and regulations, and that costs to meet those regulations are incorporated in the optimization. These costs are updated in each IRP biennially. The 2023 IRP the preferred portfolio will take into account costs for compliance with new rules issued by the Biden administration, including the Ozone Transport Rule. The Company's energy and capacity costs, which are derived from the location marginal price of the preferred portfolio, account for the Company's costs related to meeting existing environmental compliance rules.

4. **The definition of the Renewable Portfolio or Clean Energy Compliance utility system impact used in the straw proposal is "Compliance costs associated with meeting Washington state's clean energy standards."**
    a. **How should the environmental compliance impact be defined for Washington state?**
    b. **Are there particular impacts under this category that need to be discussed in more detail?**
    c. **For each utility, what Renewable Portfolio or Clean Energy Compliance impacts are embedded within other impact values and where are they accounted for?**

The costs associated with meeting the renewable portfolio standard, CETA, and CCA legislation in Washington could be understood to fall under the category of environmental compliance. Clarifying why these two categories are separated may be helpful for maintaining the impact framework going forward, as regulation changes. However, adjusting this definition makes little difference in terms of implementing BCA.

All costs related to environmental compliance are captured in the IRP model, including costs incurred at or upstream from generation, and costs such as REC purchases that occur downstream. To the extent that the initial cost-effective portfolio of resources before accounting for downstream renewable portfolio standard or CETA compliance requirements is not already sufficient, there may be an incremental cost for the additional RECs needed. This would be additive to the Company's energy and capacity costs, derived from the location marginal price of the preferred portfolio. Together this would account for the company's costs related to meeting existing environmental compliance rules.

<u>Non-utility System Impacts</u>

Other Fuels – Table 5 in the straw proposal

5. **General feedback on other fuel impacts.**

PacifiCorp is supportive of including other fuel impacts. The Company suggests that inputs such as environmental costs for other fuel impacts be defined as only those costs incurred directly by the customer or incremental to the price of fuel as some environmental costs are already borne by suppliers and embedded in the price.

6. **What are the implications of including, or not including, other fuel impacts in a primary cost-effectiveness test?**

Avoided fuel, environmental costs, and O&M costs are likely to be significant benefits for electrification and EV programs. Not including those costs in a BCA could potentially severely limit program options for utilities. Other fuel impacts are an important component of the economic proposition of electrification and not including the impacts of other fuels would limit the BCA's ability to provide a holistic assessment of these programs.

Host Customer Impacts – Table 6 in the straw proposal

7. **General feedback on host customer impacts.**

Some impacts seem particularly oriented to residential host customers, and others to commercial host customers. For example, productivity seems to be more relevant to commercial customers, and economic well-being to residential customers. If there are opportunities to make these distinctions explicit, the Company would find that helpful.

8. **Are there particular impacts under this category that need to be discussed in more detail?**

Asset value, economic-well-being, comfort, empowerment and control, satisfaction and pride are all impacts that are difficult to measure and monetize. Furthermore, these impacts may introduce uncertainty into cost-benefit analysis. These impacts may better be characterized qualitatively. Also, definitions should be carefully reviewed, and in places clarified. For example, it is not clear how the other fuel impacts listed under host customer impacts differ from the other fuel impacts described in Table 5. There is strong potential for impacts such as economic well-being to overlap/double count with impacts such as asset value.

Additionally, impacts such as asset value may not be wholly captured by the host customer. As home prices increase, so do tax burdens. Many parts of Washington are facing a critical shortage of affordable housing. Increasing the value of one customer's home may have negative effects on the general cost of housing in a given market, thus negatively impacting nonparticipant customers. How to navigate this type of complexity should be part of the discussions around measurement in Phase II of this process.

9. Low-income host customers experience the same categories of impacts, but often at a higher magnitude, as non-low-income host customers. Low-income customers are included as a separate category to allow non-energy impacts (NEIs) to be evaluated differently for these customers. Highly impacted communities and vulnerable populations (named communities) are likely to experience NEIs differently as well. Should named communities be included in this separate category? Or, should named communities be evaluated as a separate, third category?

To the extent that named communities experience NEIs differently from non-named communities, they should be evaluated as a separate category. The Company would be supportive of including impacts for named communities as a separate category. Currently, there is limited data demonstrating the differences in magnitude of non-energy impacts for named communities. The Company would welcome discussion about how differences in NEIs can be reflected for named communities so that higher magnitude impacts can begin to be realized by program design and implementation. The Company would also recommend that input from utility equity advisory group's or named communities be sought to determine what impacts are of most importance and how they should be treated in cost-benefit analysis.

Additionally, it may be worthwhile to consider whether measures or programs that target named communities should even be evaluated under the same cost-benefit frameworks as traditional energy efficiency resource acquisition. For example, in California, the newly adopted total system benefit (TSB) framework[1] acknowledges that portions of energy efficiency portfolios are designed for equity purposes and treats those measures and programs differently from traditional cost-benefit evaluation.

Societal Impacts – Table 7 in the straw proposal

10. General feedback on societal impacts.

There is substantial risk of double counting when trying to layer on societal impacts. One challenge is that some impacts in this section of the straw proposal are defined based on the pollutant avoided (i.e., GHG emissions, Other environmental impacts) and others are defined based on the negative outcome avoided (Public Health impacts and Energy Security impacts). The monetary value of avoided pollutants tends to be based on the economic and public health outcomes avoided as a result of limiting that pollution (see discussion in the following response of the current value for SCGHG that WA requires for IRP models). Measuring and monetizing public health impacts and economic impacts separately from avoided pollutants raises questions about how to avoid double counting. Precise definitions will be needed to ensure that the GHG and Other environmental

[1] CPUC proposed decision adopting the TSB framework: [378256443.PDF (ca.gov)]

impacts do not overlap the societal Public Health impacts and host customer health and safety, productivity, economic well-being and comfort impacts.

By their nature as external impacts, PacifiCorp has limited access to the necessary data to quantify environmental impacts from other industries impacted by DER programs. The Company's ability to measure and monetize these values will depend on cooperation from other agencies, organizations, and potentially manufacturers.

11. The definition of the GHG Emissions societal impact used in the straw proposal is "non- embedded GHG emissions. Should be incremental to values included in utility system impacts."

  a. How should the GHG Emissions impact be defined for Washington state?
  b. What impacts does the SCGHG include that should not be double counted elsewhere?

PacifiCorp understands that this impact stream would capture avoided emissions from avoided natural gas or gasoline use, avoided refrigerant, and other GHG emission impacts external to the utility system. As such, the Company has no concerns with this definition.

As stipulated under Washington law, PacifiCorp uses a federal estimate of the cost of carbon dioxide equivalent emissions to represent the full societal cost of carbon in our IRP model. This Interagency Working Group (IWG) value includes "changes in net agricultural productivity, human health, property damages from increased flood risk, and the value of ecosystem services due to climate change."[2] The Company proposes that BCA for DER programs in WA use this same value to monetize carbon emissions incremental to utility impacts, to maintain consistency with the value of carbon emissions included in utility impacts and with IRPs.

12. The definition of the Other Environmental societal impact used in the straw proposal is "other air emissions, solid waste, land, water, and other environmental impacts."

  a. How should the Other Environmental impact be defined for Washington state?
  b. How should this be defined to ensure there is no overlap with other impacts, especially the Public Health societal impact or the Environmental Compliance utility system impact?

PacifiCorp recommends that this impact also be defined as "incremental to utility system

[2] Interagency Working Group on Social Cost of Greenhouse Gases, United States Government, "Technical Support Document: Technical Update of the Social Cost of Carbon for Regulatory Impact Analysis - Under Executive Order 12866", August 2016. Accessed online: https://www.epa.gov/sites/default/files/2016-12/documents/sc_co2_tsd_august_2016.pdf

impacts," to avoid double counting the impacts of grid construction, for example.

13. The definition of the Public Health societal impact used in the straw proposal is "health impacts, medical costs, and productivity affected by health."

  a. How should Public Health impact be defined for Washington state?
  b. How should this be defined to ensure there is no overlap with other impacts, especially with the any host customer impacts or the Other Environmental societal system impact?

As noted above, because this impact is defined based on the outcome rather than the pollutant causing the outcome, there is risk that monetization of GHG emissions separately from monetization of public health impacts will double count this value. The Company recommends Staff consider whether the human health component of the federal estimate of the social cost of carbon proscribed for the IRP process in WA (mentioned in the previous response) sufficiently covers the public health impact of carbon. If so, this impact stream should be redefined to be the public health impact of non-GHG pollutants.

There is additional risk of doubling counting impacts included at the host customer level, in particular health and safety, and productivity.

14. The definition of the Energy Security societal impact used in the straw proposal is "Reduction in imports of various forms of energy to help inform the goals of energy independence and security."

  a. How should the Energy Security impact be defined for Washington state?
  b. How should this be defined to ensure there is no overlap with other impacts, especially with Reliability and Risk utility system impacts?

The current definition of energy security implies that imports of energy are a hinderance or societal cost towards energy security. To the contrary, the Company and its customers have experienced large economic benefits by participating in energy markets such as the Energy Imbalance Market (EIM). Historically, the societal impact of energy security, has been viewed on a national level, particularly regarding reduction of dependence on foreign imports of natural gas and oil. These transnational impacts are often difficult or negligible when being attributed to a specific energy efficiency measure. Energy security is better defined and capture in impacts associated with reliability, resiliency, and risk which capture specific elements of energy security such as the risk associated market price volatility, or the resiliency or reliability associated with the grid's ability to operate independently during extreme events. Consideration should be made as to whether or not, or to what extent, quantification of energy security should be implemented given other metrics under consideration and potential overlap.

Risk, Reliability, and Resilience – pages 15 through 16 of the straw proposal

Three impacts that Staff anticipates will require additional workshops to discuss appropriate definitions and applicability are Risk, Reliability, and Resilience. For each impact, please review the multiple definitions provided and answer the following questions:

15. What definition captures the appropriate utility system impact? If not identified in the straw proposal, please provide any available references to how this definition has been used by a utility.

The risk definition is partially captured in the Company's current practice of a risk reduction credit, which is applied to energy efficiency. The risk reduction credit is developed from two sets of production dispatch simulations of a given resource portfolio in the IRP, and each set has two runs with and without DSM. One simulation is on deterministic basis and another on stochastic basis. Differences in production costs between the two sets of simulations determine the dollar per MWh stochastic risk reduction credit. The reliability definition represents a more discrete definition for potential valuation, though as Staff notes, additional workshops will likely be needed to ascertain what metrics best capture the reliability value. Resiliency definitions appear challenging to ascertain with the highest potential for overlap with other impact areas. It's also worth noting that many of the resources selected within the Companies preferred portfolio in the optimization modeling used for the IRP are built to achieve a reliable system and therefore impacts may be embedded into the marginal price used to inform a portfolio and avoided costs. Finally, the Company would note that as an aggregate resource it's easier to understand these benefits, but it likely takes a certain level of DER adoption to achieve utility system impacts as it pertains to risk, reliability, and resilience. In isolation, an individual DER measure may not be able to provide much if any risk, reliability, or resilience benefit to the utility system.

16. What definition captures the appropriate host customer impact? If not identified in the straw proposal, please provide any available references to how this definition has been used by a utility.

The reliability definition represents the most discrete impact and aligns well with research currently being conducted by the Regional Technical Forum and the next Power Plan.[3] The Company does not presently calculate host reliability customer impacts uniformly. However, consideration should be made regarding the relationship between reduced O&M costs and reliability and resiliency as these may be captured within that O&M category.

17. What definition captures the appropriate societal impact? If not identified in the straw proposal, please provide any available references to how this definition has been used by a utility.

There is only one definition for societal impact. The Company does not disagree or have issue with the proposed definition but it's currently unlikely that a societal value will be found to differ materially from a utility system value for these categories.

[3] Recommendations for the Regional Technical Forum (nwcouncil.org)

18. Are there any questions or concerns that should be discussed in a workshop?

PacifiCorp does not have additional recommendations beyond the topics discussed in other sections of these comments.

<u>Application and Adoption of the WA test</u>

19. General feedback on the straw proposal Section 3: Application of the WA Test and Appendix 3.

As written, this section puts a burden on the utility to determine the magnitude of all impacts in order to determine if they are material. The Company can provide data to help stakeholders and Staff to understand prospective impacts in cases where data is readily available. The Company believes a collaborative process, such as this, should encourage other stakeholders to provide feedback as to what is material.

20. After incorporating these comments and discussion from workshops 4 and 5, Staff anticipates being able to recommend utilities keep the status quo concerning cost- effectiveness of DERs, move to another standard test, or move to a WA Test. If Staff recommends utilities change current practice, should the recommendation be formal or informal? Is there a preferred time frame for a formal recommendation?

Since Staff anticipates spending additional time working out how impacts should be defined and measured if Staff adopt the WA Test, the Company recommends an informal recommendation. Once all the details of implementing the test are determined, a formal recommendation may be appropriate.

<u>Phase 2</u>

During the past year, Staff has worked with interested parties, through the NSPM framework, to determine *which* DER costs and benefits to include in a potential WA Test. In 2023, Staff intends to continue a second phase of this process to determine *how* to calculate the values of costs and benefits using the Methods, Tools & Resources Handbook that is a companion document to the NSPM.

21. Please describe the ideal process for Phase 2. What mix of comments and workshops makes the most sense? Would a standing monthly workshop be preferred or does scheduling workshops as needed make more sense? Should the practice of holding workshops to two-hours be preserved or are there topics that should be given additional time?

PacifiCorp would prefer a standing workshop schedule and is amenable to the two-hour timeframe. It would be most helpful to have set dates scheduled out for the entire Phase 2 to alleviate scheduling challenges.

22. Staff will review previous comments in this docket to identify important topics for workshops. Are there topics that should be addressed that have not been brought up previously? What topics that have been brought up be given the highest priority?

In our comments above, the Company identified the following topics that may merit further discussion, in no particular order:

- What values should be set at a jurisdiction level, and what values should be set at a utility level;
- Consideration of market forward price benefits versus costs;
- Consideration of asset value benefits versus costs;
- Refining the definition of proposed impacts to prevent double counting and facilitate measurement, especially host customer and societal impacts related to economic benefit, health, and wellbeing;
- NEIs that should be measured separately for Named Communities, and whether cost-benefit analysis is appropriate for programs that benefit named communities;
- Suitability of the IWG value of avoided carbon as the appropriate valuation for GHG emissions that are incremental to utility system GHG emissions, and whether any valuation of public health impacts beyond the IWG value is necessary;
- Consideration of energy security societal impact benefits and costs;
- Consideration of minimum unit of energy or capacity change necessary to have a meaningful effect on system resilience or reliability; and
- Consideration of what host customer reliability or resiliency impact is no captured in O&M impacts.

23. On page 21 of the straw proposal, Synapse proposes next steps to begin Phase 2 of this investigation. Please provide feedback on this proposal.

PacifiCorp takes no issue with Synapse's proposed process on page 21, assuming that prioritization would allow for some impacts being designated immaterial.

Generally, PacifiCorp supports consistency, but also cautions that there may not be a one-size-fits-all path for every impact.

PacifiCorp appreciates the opportunity to provide comments and looks forward to continued collaboration with Commission Staff and stakeholders on developing guidelines for DER cost-benefit analysis in this proceeding.

It is respectfully requested that all communications related to this proceeding be sent to the following:

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Please direct inquiries to Ariel Son, Regulatory Affairs Manager, at (503) 813-5410.

Sincerely,

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