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Jeff Killip, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
621 Woodland Square Loop SE  
Lacey, Washington 98503

**Re: Comments of Puget Sound Energy in response to December 24, 2024 Notice  
Docket U-240281, Integrated System Plan Rulemaking**

Dear Director Killip,

Puget Sound Energy (PSE) submits these comments in response to the December 24, 2024 Notice of Opportunity to File Written Comments (Notice) issued by the Washington Utilities and Transportation Commission (Commission) in this docket. In the Notice, the Commission provided draft rules addressing the “cost test” required by Revised Code of Washington (RCW) 80.86.020(9). The Notice seeks comment on the draft rules and eight questions related to the implementation of the cost test. PSE appreciates the Commission’s continued efforts to develop cost-test rules and willingness to work with PSE and interested parties in a collaborative process. PSE provides its response to the Commission’s Notice below, prefaced with a brief summary of its proposed cost test, and provides proposed red-lines to staff’s draft rules as an attachment.

RCW 80.86.020(9) requires the Commission to “establish by rule a cost test for emissions reduction measures achieved by [PSE] to comply with state clean energy and climate policies.” PSE interprets this language to mean the focus of the cost test should be on the forecasted cost of emission reductions in the ISP. Although the statute gives the Commission broad authority to “use” the cost test “for any other purpose determined by the [C]ommission by rule,” PSE recommends not using the cost test for broader purposes. PSE’s proposed red-lines reflect this recommendation by delineating which ISP analysis aspects are included in the cost test required by RCW 80.86.020(9) versus which are more appropriately considered in the overall public interest evaluation required by RCW 80.86.020(11). However, in keeping with the spirit of the holistic analysis required by RCW Ch. 80.86, PSE’s proposed red-lines attempt to maintain all analysis aspects of staff’s initial draft.

### **Cost Test Application**

Under PSE’s proposed rules, the cost test would consistently analyze the lowest cost mix of portfolios with different levels of emission reductions. In alignment with the definition of lowest reasonable cost in RCW 80.86.010(22), this analysis would, at a minimum, consider long-term costs and benefits, market-volatility risks, resource uncertainties, resource dispatchability,

resource effect on system operation, the risks imposed on the large combination utility and its ratepayers, public policies regarding resource preference adopted by Washington state or the federal government, the cost of risks associated with environmental effects including potential spills and emissions of carbon dioxide, and the need for security of supply.

The output of the cost test analysis would be forecasted societal costs and customer rate impacts, at the portfolio level, for different portfolios. PSE would provide these planning-level forecasts for each year of the ISP analysis period and, as applicable, in present-value terms. Societal costs would consist of large combination utility revenue requirements, customer equipment costs, and greenhouse gas externality costs (the social cost of greenhouse gases). The analysis would build on pre-existing portfolio-level planning analyses forecasting utility customer costs and societal costs. The key addition would be forecasted planning-level rate impacts. Overall, the cost test would determine the “lowest cost mix” of different levels of emission reductions (including decarbonization and low-income electrification) and consistently compare the costs of these mixes to each other, at the portfolio level.

### **Cost Test Relation to Public Interest**

RCW 80.86.020(10) requires the Commission to approve, reject, or approve with conditions an ISP within 12 months of the ISP being filed. In determining whether to approve the ISP, RCW 80.86.020(11) requires the Commission to evaluate whether the plan is in the public interest, considering many categories of impacts, which encompass equity, health, safety, economic development, reduction of energy burdens, and customer costs.

To facilitate this public interest evaluation, PSE believes the ISP process as a whole must consider these impacts throughout the analysis. However, staff’s draft rules require all of these elements be incorporated into a cost test. This broader application of the cost test is problematic. Many of the elements included in Washington’s scope of the public interest cannot and arguably should not be quantified. Best practices for equity considerations and analysis determine that these elements should be assessed alongside cost analyses, not included in them.<sup>1</sup> For these reasons, PSE recommends that the cost test be focused on the statutorily defined purpose of determining the lowest cost mix of different levels of “decarbonization and low-income electrification measures” rather than the public interest, which already has a separate section of the statute dedicated to its evaluation and should be considered in a more holistic manner with both quantitative and qualitative information as appropriate.

In summary, PSE views the cost test as a statutorily-required tool to aid the Commission in its public interest evaluation. For example, the Commission could use the information provided by the cost test to help determine whether the ISP “results in a reasonable cost to customers, and projects the rate impacts of specific actions, programs, and investments on customers” as required by RCW 80.86.020(11)(g)(iii). The forecasted information provided by the portfolio-level cost test would then be considered holistically in concert with the other public interest criteria listed in RCW 80.86.020(11). As such the cost test itself would not constitute the

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<sup>1</sup> <https://emp.lbl.gov/publications/distributional-equity-analysis>.

Commission's public interest determination. Rather, the Commission would evaluate the public interest by considering all categories of factors listed in 80.86.020(11), which is what RCW Ch. 80.86 requires.

### **Responses to Notice Questions**

- 1. RCW 80.86.020(9) requires the cost test be used by large combination utilities “for the purpose of determining the lowest reasonable cost of decarbonization and low-income electrification measures in integrated system plans, at the portfolio level, and for any other purpose determined by the commission by rule.” Staff proposes the cost test also be used in aiding the Commission’s evaluation that an ISP is in the public interest, as required by RCW 80.86.020(11).**

#### **Is this an appropriate use of the cost test?**

Yes, it is appropriate to use the cost test to aid the Commission’s evaluation under RCW 80.86.020(11) of whether the ISP is in the public interest. However, consistent with the word “aid” and the plain language of RCW 80.86.020, the cost test should not be the sole method to evaluate the public interest or attempt to evaluate all of the components included in the public interest. Instead, as discussed above, PSE recommends using the cost test to help assess whether the ISP “results in a reasonable cost to customers, and projects the rate impacts of specific actions, programs, and investments on customers” as required by RCW 80.86.020(11)(g)(iii) and consistent with the cost test’s statutory purpose of “determining the lowest reasonable cost” of emission reduction measures “at the portfolio level.” The various other public interest criteria in RCW 80.86.020(11) can then be considered in conjunction with the results of the cost test.

- 2. The statute specifically requires the cost test be used for emissions reduction measures but allows it to be used for other purposes determined by rule. Staff proposes the cost test be used for all resources. This follows the National Standard Practice Manual For Benefit-Cost Analysis of Distributed Energy Resources<sup>2</sup> (DER NSPM) principle of comparing resources consistently and is consistent with the requirement to use the cost test for comparing portfolios.**

#### **Are there any reasons to limit the use of the cost test?**

PSE recommends limiting the use of the cost test to analyzing readily quantifiable costs at the portfolio level, to estimate the “lowest cost mix” of varying levels of emission reductions, determined through a detailed and consistent analysis in the context of the ISP. Consistent with well-established utility planning practices and economic principles, the costs analyzed would include utility customer rate impacts and societal costs. The cost test would estimate these costs

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<sup>2</sup> The DER NSPM was published on August 2020 by the National Efficiency Screening Project, “represented by a stakeholder group of organizations and individuals working to update and improve cost-effectiveness screening practices for distributed energy resources.”

for all resources in a given portfolio, at the portfolio level. As such the cost test analysis would be consistent across portfolios and implicitly be used for all resources.

Under this structure, public interest factors that are not readily quantified would still be explicitly considered, but outside the confines of the cost test. In addition, the Commission and PSE would retain flexibility to conduct sub-portfolio-level analysis using various pre-existing resource-specific tools, such as those set forth in the DER NSPM, without being unduly constrained by a test designed to assess cost impacts at the portfolio level.

The cost test should focus on informing decisions in the context of the overall ISP process. Specifically, the cost test should not be the same framework that is applied when making individual resource decisions. There is no comprehensive model that can integrate decisions on demand-side, supply-side, and delivery system solutions in one set of simultaneous equations. The ISP process will require coordination in the planning processes of each of the elements. The rules should provide for such flexibility.

**3. The draft cost test rules are intended to capture the impacts (including both costs and benefits) that must be considered when determining whether a portfolio is the lowest reasonable cost and whether an ISP is in the public interest, while providing significant flexibility.**

- a. Are there any necessary impacts missing from the draft cost test rules?**
- b. Alternatively, are there any currently listed impacts that should not be included in the draft rules? If yes, please explain why the cost test should not consider each impact identified.**

PSE interprets RCW Ch. 80.86 as already requiring analysis of all the listed impacts. For the purpose of the draft cost test rules, PSE's draft red-lines attempt to keep all these impacts as important aspects for the Commission to holistically consider, while clarifying how these impacts should be accounted for in the cost test itself.

As discussed above, the cost test must analyze the lowest cost mix of different levels of emission reductions, considering at a minimum the factors listed in RCW 80.86.010(22). These factors, some of which are listed in staff's draft cost test rules, are thus embedded in the utility customer rate impacts and societal cost outputs of the cost test. Other factors listed in staff's draft rules are already required to be addressed in the public interest evaluation required by RCW 80.86.020. PSE's proposed red-lines nonetheless attempt to maintain consideration of all of staff's factors, to make clear these factors will still be fully considered in the ISP analysis.

**4. The draft cost test rules provide guidance on how the cost test shall be applied to the long-term planning and implementation planning requirements. Are these identified applications clear and appropriate?**

PSE generally agrees with the spirit of staff's proposed "Applicability" rules. The cost test should be applied consistently at the portfolio level and applied consistently to each portfolio

considered. However, PSE understands RCW Ch. 80.86 to require the cost test be applied to assess cost impacts of different levels of portfolio-level emission reductions. Therefore, for the purpose of a cost test, discussion of targets is more appropriately analyzed within the context of emission reductions themselves. Specifically, it is not appropriate or sensible to apply the cost test to targets established in RCW Ch. 19.405, the Washington Clean Energy Transformation Act (CETA). These targets are set forth in a separate statute applying to all utilities and are not directly related to the ISP cost test. PSE therefore proposes deleting the requirement to apply the cost test to resource targets.

PSE also proposes deleting the requirement that PSE apply the cost test to demonstrate that the ISP is in the public interest. As discussed above, RCW Ch. 80.86 makes clear that the cost test and public interest evaluation are separate exercises. PSE, however, agrees the cost test and public interest are complimentary. PSE's proposed red-lines attempt to clarify the interaction between these distinct statutory provisions.

**5. There may be additional guidance useful to large combination utilities that may not be appropriate to include in draft cost test rules.**

- a. Is there necessary guidance missing from the draft cost test rules? If so, what guidance is missing and why is it necessary? For example:**
  - i. Should the draft cost test rules provide more guidance on the applicability of the cost test, including, but not limited to, how the cost test shall be applied consistently in the development of a lowest reasonable cost portfolio?**
  - ii. Should the draft cost test rules provide more guidance on the costs and benefits to include in the cost test?**

PSE's proposed red-lines attempt to maintain the spirit of staff's draft rules, while providing additional guidance in the form of clarity regarding the cost test required by RCW 80.86.020(9) as it relates to the public interest evaluation required by RCW 80.86.020(11). PSE does not believe additional guidance is necessary beyond this clarification.

- b. Please identify what additional guidance might be useful for large combination utilities to receive from:**
  - i. A technical advisory group,**
  - ii. An equity advisory group,**
  - iii. The public,**
  - iv. The Commission in a subsequent ISP order,**
  - v. Other sources.**

For the time being, PSE, the public, and interested parties will continue to have input on the cost test rule through this ongoing rulemaking docket. Once the Commission establishes the cost test rule, PSE will apply the rule to the extent feasible given timing considerations in developing its first ISP to be filed in 2027. In the development process, PSE will be in contact with Commission staff and interested parties, through the Resource Planning Advisory Group

and informal avenues, to ensure PSE's application of the rule is reasonably consistent with expectations. The Commission will then have the opportunity to provide comments or update cost test requirements in a subsequent ISP order. Therefore, once the rulemaking is complete, PSE does not believe additional guidance will be required beyond the existing processes that will naturally occur after the final rules are published.

**6. The draft cost test rules propose two new definitions.**

- a. Is the proposed definition of "resiliency" reasonable and adequate?**
- b. Is the proposed definition of "security of supply" reasonable and adequate?**

PSE does not believe the terms "resiliency" and "security of supply" require defining, especially in the context of the cost test required by RCW 80.86.020(9). Moreover, both resiliency and security are already used in CETA, where neither term is explicitly defined. There are common-sense reasons for this lack of additional definition. Both terms have easily understood and accepted meanings in every day usage, with resiliency meaning the capacity to withstand difficulties and security meaning the protection from danger or threats. An attempt to further define these concepts by rule is unnecessary and may result in overly prescriptive rules. For example, the bifurcation of in-state versus out-of-state resources in the proposed definition of "security of supply" could harm customers by hindering the integration of the bulk electric system across North America. To the extent the Commission would prefer to add precise definitions to these terms, PSE recommends modifying the terms in a process that includes all utilities subject to CETA instead of defining them in an ISP rulemaking only applying to PSE. In any case, PSE reiterates that defining these terms is unnecessary, particularly given they have already been used in CETA for over five years without statutory or administrative definition.

**7. During the second technical conference, hosted on Friday, December 13, 2024, PSE presented an overview of its current modeling practice and how it envisions using a cost test to develop a lowest reasonable cost portfolio. Are there any changes or modifications required to the draft cost test rules to allow for the stages and overall process proposed by the Company? If so, please explain the changes or modifications and why they are necessary.**

PSE believes these comments and the attached proposed red-lines are consistent with its presentation at the second technical conference.

**8. What else, if anything, should the Commission consider in the design of the cost test rules?**

Considering RCW Ch. 80.86 in its totality, PSE believes the cost test required by RCW 80.86.020(9) should not unduly constrain the Commission, but rather be a tool to aid the Commission's evaluation of the ISP. As discussed above and shown in PSE's proposed red-lines, PSE envisions this tool as providing portfolio-level cost impacts for portfolios with differing levels of emission reduction, decarbonization, and electrification, including electrification for low-income customers. By understanding the "lowest cost mix" of differing portfolios with

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incrementally higher levels of emission reductions, including those required to comply with state clean energy and climate policies, the cost test can allow the Commission to understand the costs of emission reductions to society and approve an ISP that results in a reasonable cost to customers. The Commission can then use analysis provided by the cost test as an important input in its public evaluation and ISP approval, under RCW 80.86.020(11).

### **Conclusion**

PSE looks forward to further discussing the draft cost test rules at the January 9, 2025 technical conference. If you have questions about these comments, please contact Stephen Collins, Regulatory Affairs Initiatives Manager, at [Stephen.Collins@pse.com](mailto:Stephen.Collins@pse.com). If you have any other questions, please contact me at [Wendy.Gerlitz@pse.com](mailto:Wendy.Gerlitz@pse.com).

Sincerely,

*/s/ Wendy Gerlitz*

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### Attachments:

Attachment A - Proposed Changes to UTC Staff Draft Cost Test Rules without redlines

Attachment B - Proposed Changes to UTC Staff Draft Cost Test Rules with redlines