



January 14, 2025

Via Electronic Filing

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

Re: **Docket U-240281** - Rulemaking required to implement ESHB 1589 –
AWEC Comments for Draft Cost Test Rules and January 9, 2025 Technical
Workshop

Dear Executive Director Killip:

The Alliance of Western Energy Consumers (“AWEC”) appreciates the opportunity to submit comments in response to the draft Cost Test rules in accordance with the Commission’s December 24, 2024 Notice of Opportunity to File Written Comments (“Notice to Comment”) on both the draft Cost Test rules and the list of questions contained within the Notice to Comment.

AWEC has had the opportunity to review PSE’s proposed revisions to the draft Cost Test rules and supports some changes advocated for by PSE; however, certain clarifications and refinements are necessary as indicated in AWEC’s redlines to PSE’s draft cost test rules (attached) and as explained herein.

Responses to 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 commission rules.” 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, the cost test required in RCW 80.86.020(9) is functionally distinct from and in addition to the Commission’s obligation in RCW 80.86.020(11) to consider whether an integrated system plan is in the public interest. Per RCW 80.86.020(9), the cost test is intended to help identify “the lowest reasonable cost of decarbonization and low-income electrification measures in integrated system plans, at the portfolio level.” The analysis that goes into the cost test is therefore intended to ensure that the portfolios analyzed in the ISP include lowest

reasonable cost scenarios. When considering whether an ISP is in the public interest, pursuant to RCW 80.86.020(11)(g)(iii), the Commission must also ensure that the ISP “results in a reasonable cost to customers...” In other words, just because an ISP may include portfolios identified as being “lowest reasonable cost” does not mean that, overall, the ISP will result in a reasonable cost to customers consistent with the public interest. The cost test should also serve to ensure that costs and rate impacts to all customer classes are not unreasonable and thus inconsistent with the public interest.

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 principle of comparing resources consistently¹ 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?**

AWEC understands that by applying the cost test to each ISP portfolio, the cost test would implicitly be applied to all resources in the portfolio. However, some resources may be impractical to incorporate into a cost test, and the large combination utility should have sufficient flexibility to adjust treatment of impractical resources appropriately while maintaining the goals of the cost test.

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?**

Consistent with AWEC’s redlines to Staff’s draft rules, both rate impacts and bill impacts to customers on a planning basis must be presented for each customer class (i.e. residential, commercial, industrial) in order for stakeholders and the Commission to understand the impacts of each portfolio and in order for the Commission to meet its obligation to ensure that an approved ISP results in a “reasonable cost to customers.” A single overall average impact is not sufficient to ensure that the plan is in the public interest for all customer classes. Additionally, as AWEC indicated in its October 4, 2024, comments, the cost test should have two components: a planning cost test and a customer cost test. The customer cost test should function to ensure that customers do not experience unfair cost burdens and moderate cross-subsidization between electric and gas service as PSE seeks to decarbonize its system. Rate impacts to customers should be at the forefront of the Commission’s consideration when considering an ISP. As discussed below and reflected in AWEC’s redlines to the draft rules, AWEC recommends that incremental, individual customer

¹ National Standard Practice Manual for Benefit-Cost Analysis of Distributed Energy Resources by National Efficiency Screening Project, August 2020.

class rate impacts be limited to 4% on a forecast basis for each ISP planning period. This means that if any rate class is anticipated to experience an incremental impact of at least 4%, then the PSE must identify options that would reduce incremental impacts to 4% or less.

- 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.**

AWEC has proposed clarifying language to the Economic Development impact to ensure balanced and accurate assessment of the value of economic development within the cost test. If this language is not included, the Economic Development impact should be removed because the plain language interpretation would be to evaluate the positive impacts of utility investment, without balancing with the negative impacts of higher rates.

- 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?**

AWEC is generally comfortable that the draft cost test rules, as amended by AWEC, would provide sufficient guidance on how the cost test shall be applied to long-term planning and implementation planning requirements.

- 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:**

AWEC finds that additional guidance is needed on appropriate rate impacts to customers that result from ISP scenarios. As noted above, the Commission must consider whether an ISP results in a “reasonable cost to customers.” Additional guidance on what may constitute a “reasonable cost to customers” is needed. AWEC’s edits to include a second component of the cost test – a “Customer Cost Test” – are intended to ensure that rate impacts to customers remain reasonably balanced with decarbonization efforts. If the lowest reasonable cost portfolio results in rate impacts to one or more customer classes of 4% or more, the Commission should have ready options to consider in modifying resource options in order to ensure that rates remain reasonable.

- 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?**

AWEC does not believe that more guidance is necessary at this time.

- ii. Should the draft cost test rules provide more guidance on the costs and benefits to include in the cost test?**

AWEC finds that the guidance on costs and benefits to include in the cost test, as amended by AWEC, is sufficient.

- 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.**

AWEC believes that the Company's existing advisory groups, including its Resource Planning Advisory Group, are sufficient.

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?**

AWEC does not believe that either "resiliency" or "security of supply" need to be defined for purposes of the cost test rules. AWEC is concerned that being prescriptive in defining these terms will not serve to aid in implementation, given the commonsense meanings of these terms and the use of the same or similar terms in CETA but could cause unnecessary constraints as the attributes of resiliency and security evolve with the industry.

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.² 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.**

AWEC is not aware of any changes or modifications necessary to the draft rules, as amended by AWEC, that would be necessary to allow for the stages and overall process proposed by the Company.

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

As indicated in AWEC's redlines to the draft rules and in its comments herein, AWEC continues to advocate that the Commission adopt rules that allow flexibility in the large combination utility's design and implementation of the cost test, and that facilitate its consideration of rate impacts to each customer class more explicitly. Flexibility in design and implementation will ensure that rigid, impractical, or out-of-date design and implementation do not negatively impact the potential value of the cost test.

Additionally, the Commission is statutorily required by RCW 80.86.020(11)(g)(iii) to consider costs to customers, which necessarily includes consideration of costs for each customer class (i.e. residential, commercial and industrial). The Commission's rules should be clear that overall rate and bill impacts, or rate and bill impacts for only a subset of customer classes, will not be acceptable. AWEC understands the challenge with forecasting rate impacts for non-residential classes given the variation in size and usage of customers in commercial and industrial classes and is willing to work with PSE and/or the Commission on appropriate assumptions for PSE to include when estimated rate and bill impacts to non-residential customers. More importantly, the Commission should ensure that the cost test rules provide it with all of the information necessary to ensure that an approved ISP is consistent with the public interest, including costs to customers. AWEC's edits to include a Customer Cost Test component of the cost test is intended to ensure that the Commission has information about options that it can utilize to design conditions of approval of an ISP that balances decarbonization with cost impacts to customers. Requiring this information be provided by PSE on the front end helps to reduce (and ideally eliminate) additional process and delays that would result if the Commission were faced with a scenario where a lowest reasonable cost portfolio was identified that nevertheless results in unreasonable costs to customers.

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² *In re Commission rulemaking required to implement ESHB 1589 (Chapter 351, Laws of 2024), Docket U-240281, Cost Test Recording No. 2., Slides 5-6 (December 16, 2024)*

Dated this 14th day of January 2025.

Respectfully submitted,

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