U-210590

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Jeff Killip
Executive Director
Washington Utilities & Transportation commission
621 Woodland Square Loop SE
Lacey, WA 98503
Submitted Via UTC Web Portal

Re: Docket No. U-210590 - UTC proceeding to develop a policy statement addressing alternatives to traditional cost of service ratemaking

Dear Executive Director Killip,

On behalf of Sierra Club and its more than 26,000 members in Washington, thank you for the opportunity to provide these comments in response to the December 13, 2023 Notice Resuming Proceeding and Opportunity to File Written Comments. We write to share our perspectives on opportunities to use the Performance-Based Ratemaking ("PBR") concepts being explored in this docket to align ratemaking in Multi-Year Rate Plans ("MYRPs") with state energy policies, especially emission reduction policies. Specifically, we recommend that the Commission:

1. Use this docket to provide guidance on incorporating PBR into MYRPs in upcoming rate cases, while maintaining flexibility and avoiding delay in implementing PBR while this docket is underway.
2. Provide clear guidance that building electrification can and should be incorporated into MYRPs to improve performance on Draft Metrics 27, 31, 32, and others, although electrification can also be incorporated into cost-of-service ratemaking.
3. Clarify that the lowest reasonable cost standard is compatible with meeting statutory requirements and prioritizing state policy objectives, and that PBR can and should be used to incentivize an appropriate balance that achieves multiple policy objectives to the greatest extent possible.

Our comments are responsive to Questions 1 and 3 in the December 13 notice, but they also have relevance to broader questions the Commission must address in this docket and upcoming rate cases:

Question 1: Connection between this docket and MYRPs

We believe there is a connection between the work in this docket and the performance measures in an MYRP. Specifically, the metrics and direction from this docket can help guide the Commission's consideration of performance metrics and incentive mechanisms in MYRPs, particularly as they relate to building electrification. Clear direction from the Commission in this docket will give utilities and stakeholders a shared framework for proposing performance metrics in MYRPs that will align with Commission policy, improving the quality of proposals in MYRPs and their likelihood of being approved.

However, the Commission's guidance should make clear that PBR can and should proceed in MYRPs filed while this docket remains open. Waiting until the conclusion of this docket to begin meaningful implementation of PBR would be inconsistent with statutory directives in RCW 80.28.425, and would deprive the Commission and stakeholders of opportunities to gain valuable experience implementing PBR concepts that could inform the work in this docket. Additionally, even after this docket results in a policy statement, the Commission will need to maintain flexibility to periodically update its policy statement as Washington gains experience implementing PBR, and to modify or augment any metrics or principles from this docket as they are applied in individual MYRPs.

Initial Commission guidance from this docket can be especially valuable for incorporating building electrification into upcoming MYRPs. Electrification has repeatedly been found to be a critical element of Washington's best and lowest-cost decarbonization pathways, including in the 2021 State Energy Strategy and 2023 Biennial Energy Report.[1] Gas utility MYRPs should advance state decarbonization policies, as directed by RCW 80.28.425,[2] and ensure compliance with the utilities' Climate Commitment Act ("CCA") obligations. This will require MYRPs to align utility incentives with pursuing electrification and include appropriate mechanisms for recovering electrification-related costs.

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[1] Washington State Department of Commerce, *Washington 2021 State Energy Strategy* at 15,46, 66 (Dec. 2020), (finding that "decarbonizing the building sector requires the state to maximize electrification," which is the least-cost way to achieve decarbonization goals), https://www.commerce.wa.gov/wp-content/uploads/2020/12/Washington-2021-State-Energy-Strategy-December-2020.pdf; Washington State Department of Commerce, *2023 Biennial Energy Report* at 46 (March 2023) ("Decarbonizing the building sector requires the state to: Maximize energy efficiency [and] Maximize electrification [among other actions].), https://deptofcommerce.app.box.com/s/uohdamh5qd1fwal543x78elme2w0pr0h; *see also* Charles Li et al., *Financial Impact of Fuel Conversion on Consumer Owned Utilities and Customers in Washington*, E3 (May 2022), https://www.commerce.wa.gov/wp-content/uploads/2022/06/WA-COU-Building-Electrification-Final-Report.pdf; Poppy Storm et al., *Operation 2030: Scaling Building Decarbonization in Washington State*, Clean Energy Transition Institute & 2050 Institute (Jan. 2022), https://uploads-ssl.webflow.com/5d8aa5c4ff027473b00c1516/61d7a479ba34328152be6239_CETI-2050%20Institute%20Operation%202030%20White%20Paper_2022-01-05.pdf; Jonny Kocher & Talor Gruenwald, *Washington State Could Lead the Nation on Building Electrification Codes*, RMI (Jan. 2022), https://rmi.org/washington-state-could-lead-the-nation-on-building-electrification-codes/; Rewiring America, *Bringing Infrastructure Home: A 50-State Report on U.S. Home Electrification* at 108 (June 2021), https://www.rewiringamerica.org/policy/bringing-infrastructure-home-report.

[2] RCW 80.28.425(1), (7) (listing "environmental health and greenhouse gas emissions reductions" as an element of the public interest and "attainment of state energy and emissions reduction policies" among the factors the Commission may consider in developing performance measures in an MYRP).

In various formal proceedings and informal contexts, some utilities have suggested that they believe cost-of-service ratemaking may not allow them to recover the costs of supporting electrification. We disagree: The costs of supporting electrification can constitute a prudently-incurred cost of operating utilities' gas systems in compliance with applicable state laws, including the CCA.[3] Relatedly, electrification can form the basis of non-pipe alternatives ("NPA") that should be incorporated into cost-of-service rates if they are found to be the lowest reasonable cost resources compared to alternative gas infrastructure projects (accounting for factors like state decarbonization policies and stranded asset risks). Indeed, a utility's decision *not* to pursue electrification could appropriately be found imprudent and lead to disallowance of other costs (such as the costs of gas infrastructure, alternative fuels, or CCA compliance credits) if electrification would have been a lower-cost, lower-risk option for operating the system in compliance with applicable requirements.

Nevertheless, PBR provides a valuable set of tools for aligning ratemaking and utility incentives with state policies, including electrification as a CCA compliance strategy. And this docket can provide guidance for incorporating electrification into MYRPs in upcoming rate cases. "[A]ttainment of state energy and emissions reduction policies" is one of the factors the Commission may consider in developing performance measures for an MYRP, and it was directed to address the same set of factors in the policy statement that will result from this proceeding.[4]

Accordingly, guidance from this docket should make clear that utilities and stakeholders can and should incorporate building electrification in the metrics, incentive mechanisms, and plans for meeting performance targets proposed in upcoming MYRPs.[5] Building electrification can help improve utilities' performance on Draft Metrics 31 (GHG Reductions per Dollar), 32 (Total GHG Emissions), and 27 (Air Quality Emissions), as well as other metrics related to Goal 4: Environmental Improvements.[6] However, the Commission may wish to clarify electrification's relevance to these metrics or add metrics directly based on electrification performancet, given the unique issues raised by this emerging element of decarbonization. As noted above, flexibility and iteration as the Commission gains experience incorporating electrification into MYRPs will be key.

Question 3: Balancing multiple policies and requirements

Question 3 specifically addresses Distributed Energy Resources ("DERs"), but it raises issues that are relevant to multiple aspects of PBR. The question focuses on how to balance CETA's requirement to equitably distribute energy benefits and burdens with a "least-cost requirement"

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[3] *See, e.g.*, RCW 80.28.020 (describing the Commission's charge to set rates that are not "in any wise in violation of the provisions of the law"). We note that utilities can encourage and support voluntary electrification, for example by offering incentives, education, and other programming, without implicating their obligation to serve.
[4] RCW 80.28.425(7) & legislative directive.
[5] In upcoming rate cases and at the appropriate stage of this docket, we look forward to addressing mechanisms for aligning utility incentives with electrification and broader decarbonization policy goals, such as connecting utilities' rate of return to achievement of relevant decarbonization metrics.
[6] UTC Docket U-210590, November 30, 2022 Notice of Opportunity to File Written Comments at 5-6 (describing draft metrics).

under the current regulatory framework. We note that instead of a strict least-cost requirement, the existing regulatory framework applies a "lowest reasonable cost" approach that allows for consideration of relevant factors such as compliance with other legal and regulatory requirements and alignment with state equity and decarbonization policies.[7] While identifying a lowest reasonable cost resource mix will involve balancing the various factors that determine whether the strategy complies with applicable requirements, advances state policy, and minimizes costs, it does not require the Commission to reconcile requirements that are "at odds with one another."

The best balance between the multiple relevant factors will depend on the context of each decision, including applicable requirements, the policy and equity issues raised, and the evidence before the Commission. However, the Commission should always ensure that (1) applicable requirements, including decarbonization targets identified in the CCA and CETA, are satisfied, and (2) any factors identified in relevant statutes and regulations and are given due consideration, maximized to the extent consistent with minimizing rates, and balanced against any rate increases they would entail. Using the CCA compliance example discussed above, gas utilities must achieve the required levels of decarbonization, and should do so using the lowest cost available resources (which will typically be electrification) while maximizing equity and other policy objectives in the deployment of those resources. By applying incentive mechanisms based on multiple metrics, the Commission can use PBR to incentivize an appropriate balance that achieves multiple policy objectives to the greatest extent possible.

Thank you for the opportunity to comment.

Sincerely,

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[7] *See, e.g.*, WAC 480-90-238(2)(a)-(b) (directing gas IRPs to meet system needs at lowest reasonable cost, which is defined to consider multiple factors including "resource costs, market-volatility risks, demand-side resource uncertainties, the risks imposed on ratepayers, resource effect on system operations, *public policies regarding resource preference adopted by Washington state or the federal government*, *the cost of risks associated with environmental effects including emissions of carbon dioxide*, and the need for security of supply" (emphasis added)); RCW 19.280.030(1)(d), (j), (*l*) (applying "lowest reasonable cost" as a criterion for electric resource planning); RCW 80.28.020 (directing the Commission to set "just, reasonable, or sufficient rates"); RCW 80.28.425(7) (listing "lowest reasonable cost planning" among multiple factors that the Commission may consider in developing performance measures in an MYRP).