

Service Date: November 4, 2021



STATE OF WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

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November 4, 2021

NOTICE OF OPPORTUNITY TO FILE WRITTEN COMMENTS

(By 5 p.m. on Tuesday, December 14, 2021)

RE: Developing a Commission jurisdictional specific cost-effectiveness test for distributed energy resources incorporating CETA, **Docket UE-210804**

TO ALL INTERESTED PERSONS:

The 2019 Clean Energy Transformation Act (CETA) requires significant changes to electric utility planning in Washington state, including, among other provisions, a transition to clean energy by 2045. CETA also requires utilities to ensure that all customers benefit from the transition to clean energy through the equitable distribution of benefits and reduced burdens. The 2019 legislation amended portions of Title 19 RCW governing utilities' 20-year integrated resource plans (IRPs) and created a new planning requirement known as the clean energy implementation plan (CEIP).

Following extensive discussions with stakeholders, the Washington Utilities and Transportation Commission (Commission) adopted rules in 2020 to guide investor-owned electric utilities' planning efforts to meet CETA's mandates. The Commission solicited and received several rounds of public comments addressing specific questions, as well as general comments on several draft versions of the rules in all three dockets during the Commission's rulemaking processes.

The Commission's final rules were adopted on December 28, 2020, in Dockets [UE-190698](#) and [UE-191023](#), and in Docket [UE-190837](#).

During the rulemaking process, the Commission received stakeholder requests for additional guidance regarding changes to cost-effectiveness test calculations implicit in CETA, in particular

concerning distributed energy resources (DERs). The Commission has opened this Docket to determine whether additional guidance related to cost-effectiveness of DERs is necessary.

To investigate cost-effectiveness, the Commission will focus on how CETA necessarily changes the standard practice of using the modified total resource cost test (TRC) and utility cost test (UCT) as the primary and secondary screening tests.^{1,2} The scope of this investigation is to ensure consistent evaluation of distributed energy resources.

This staff investigation will follow the process and principles described in the [National Standard Practice Manual For Benefit-Cost Analysis of Distributed Energy Resources](#) (NSPM or manual).³ The NSPM principles are provided in Table 1 below, and serve as economically sound and policy-neutral guidance on conducting benefit-cost analysis (BCA) for DERs.

Table 1: NSPM BCA Principles

Principle 1 Treat DERs as a Utility System Resource	DERs are one of many energy resources that can be deployed to meet utility/power system needs. DERs should therefore be compared with other energy resources, including other DERs, using consistent methods and assumptions to avoid bias across resource investment decisions.
Principle 2 Align with Policy Goals	Jurisdictions invest in or support energy resources to meet a variety of goals and objectives. The primary cost-effectiveness test should therefore reflect this intent by accounting for the jurisdiction's applicable policy goals and objectives.
Principle 3 Ensure Symmetry	Asymmetrical treatment of benefits and costs associated with a resource can lead to a biased assessment of the resource. To avoid such bias, benefits and costs should be treated symmetrically for any given type of impact.
Principle 4 Account for Relevant, Material Impacts	Cost-effectiveness tests should include all relevant (according to applicable policy goals), material impacts including those that are difficult to quantify or monetize.

¹ For further background on the Commission's policy and practice of cost-effectiveness generally, [see UG-121207 Policy Statement on the Evaluation of the Cost-Effectiveness of Natural Gas Conservation Programs](#).

² Outside of the Pacific Northwest region, reference to a cost-effectiveness test normally refers to the California Standard Practice Manual version of the test. The Northwest Power and Conservation Council adopted its own version of the total resource cost-effectiveness test before the California Public Utilities Commission released the California Standard Practice Manual. To avoid confusion, here we call the Council's test a modified TRC.

³ National Standard Practice Manual for Benefit-Cost Analysis of Distributed Energy Resources by National Efficiency Screening Project, August 2020.

Principle 5 Conduct Forward-Looking, Long-term, Incremental Analyses	Cost-effectiveness analyses should be forward-looking, long-term, and incremental to what would have occurred absent the DER. This helps ensure that the resource in question is properly compared with alternatives.
Principle 6 Avoid Double-Counting Impacts	Cost-effectiveness analyses present a risk of double-counting benefits and/or costs. All impacts should therefore be clearly defined and valued to avoid double-counting.
Principle 7 Ensure Transparency	Transparency helps to ensure engagement and trust in the BCA process and decisions. BCA practices should therefore be transparent, where all relevant assumptions, methodologies, and results are clearly documented and available for stakeholder review and input.
Principle 8 Conduct BCAs Separately from Rate Impact Analyses	Cost-effectiveness analyses answer fundamentally different questions than rate impact analyses, and therefore should be conducted separately from rate impact analyses.

The NSPM provides a framework for the Commission to work with stakeholders to develop a jurisdictional specific test that incorporates the goals of CETA, as well as any other applicable policy goals identified through this process. The NSPM multi-step process below can help inform the development of a primary cost-effectiveness test for DERs in Washington.

Commission Staff generally agrees with the guidance from the NSPM that a consistent BCA framework would apply to all types of DERs, and to both electric and gas utility investments.

Table 2: NSPM 5-Step Process for Developing a Jurisdiction’s Primary Test

Step 1	Articulate Applicable Policy Goals	Articulate the jurisdiction’s applicable policy goals.
Step 2	Include All Utility System Impacts	Identify and include the full range of utility system impacts in the primary test, and all BCA tests.
Step 3	Decide Which Non-Utility System Impacts to Include	Identify those non-utility system impacts to include in the primary test based on applicable policy goals identified in Step 1: <ul style="list-style-type: none"> Determine whether to include host customer impacts, low-income impacts, other fuel, and water impacts, and/or societal impacts.
Step 4	Ensure that Benefits and Costs are Properly Addressed	Ensure that the impacts identified in Steps 2 and 3 are properly addressed, where: <ul style="list-style-type: none"> Benefits and costs are treated symmetrically. Relevant and material impacts are included, even if hard to quantify. Benefits and costs are not double counted. Benefits and costs are treated consistently across DER types.
Step 5	Establish Comprehensive,	Establish comprehensive, transparent documentation and reporting, whereby:

	Transparent Documentation	<ul style="list-style-type: none"> • The process used to determine the primary test is fully documented. • Reporting requirements and/or use of templates for presenting assumptions and results are developed.
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The Commission intends to engage stakeholders at each step of this process with either opportunities for written comment, virtual workshops, or both.

Commission Staff has identified the following new applicable policy goals (Table 3) contained in CETA. Staff developed its list based on the content of the rule and the intent section of the legislation.

Table 3: Policy Goals Related to DERs

- Provide safe, adequate, and efficient services.
- Support fair, just, reasonable, and sufficient rates.
- Reduce energy burden of low-income households.
- Avoiding increased burdens to highly impacted communities.
- Ensure all customers benefit from the transition to clean energy through the equitable distribution of energy and nonenergy benefits and reduction of burdens to vulnerable populations and highly impacted communities.
- Ensure all customers benefit from the transition to clean energy through long-term and short-term public health and environmental benefits and reductions of costs and risks.
- Ensure all customers benefit from the transition to clean energy through energy security and resiliency.
- Maintain system reliability.
- Develop lowest reasonable cost resources.
- Enable significant and swift reductions in greenhouse gas emissions.

The Commission requests that interested persons file written comments by December 14, 2021, responding to the issues identified in this Notice, and address the following questions:

1. Do the policy goals identified in Table 3 appropriately and sufficiently cover the applicable policy goals for Step 1 of the process to develop a Commission specific primary test for DERs?
2. Do any of these policy goals apply to some DERs but not others? Please discuss the advantages and disadvantages of applying some of the policy goals to different DER types.
3. The cost-effectiveness tests currently employed by Washington investor-owned utilities are the modified total resource cost test and the utility cost test. For stakeholders to have

a full understanding of current practice, utilities should provide a table of utility impacts (costs and benefits) currently used for evaluating cost-effectiveness of DERs in response to this question. Specifically, the IOUs should indicate what impacts are currently included for the following different DER resources: energy efficiency, demand response, distributed generation, distributed storage, building electrification, transportation electrification, or other DERs identified in a planning process.

4. Are there specific questions related to cost-effectiveness from the NSPM or other sources that are necessary to answer during the course of this investigation? For example, choice of discount rates or incremental cost calculations? Please describe why answers to these questions are necessary to develop a Commission jurisdiction-specific test.
5. This Docket is focused on electric utility system cost-effectiveness changes due to CETA. Although CETA does not apply to gas utility systems, other recent policy changes indicate a need to examine current cost-effectiveness practices. Please describe the advantages and disadvantages of addressing both electric and natural gas cost-effectiveness in this Docket to ensure a consistent framework is used.
6. The Commission is seeking stakeholder input to develop a workplan for completing this investigation. After reviewing the NSPM, the Commission will convene a series of stakeholder workshops and solicit multiple rounds of stakeholder comments to develop a new primary, jurisdiction-specific test and address other topics raised during stakeholder meetings. We anticipate this process will include five to seven meetings. Please provide feedback on this proposed process, including reasonable timeframes for completion.
7. We anticipate the discussions will cover the key issues outlined below, following the 5-step NSPM process described above. Please provide comments on this list of issues and identify any additional issues the Commission should evaluate.
 - a. Discuss and confirm relevant policy goals. See preliminary list above.
 - b. Review and confirm the scope of the BCA framework's application to different regulatory contexts for DERs, as needed, *e.g.*, IOU programs, pricing mechanisms, procurement, rate cases, planning, and grid investments.
 - c. Review the decision-making process for DER investments in terms of: BCA, rate impact analysis, and relevant qualitative and quantitative factors and metrics that may fall outside the BCA and rate impact analyses.
 - d. Review the utility system impacts currently accounted for in BCA for the range of DERs and identify any gaps and methodologies to account for missing impact factors. What methodologies can be used to quantify or account for "hard to quantify" utility system impacts?
 - e. Determine the relevance of accounting for host customer impacts based on articulated policy goals and objectives. Should the host customer impacts currently accounted for in IOUs TRC test be reviewed? Should the primary test include host customer impacts? Is there symmetrical treatment of costs and

benefits? What methodologies can be used to quantify or account for “hard-to-quantify” host customer non-energy impacts?

- f. Discuss how to treat “other” fuels, *i.e.*, fuels that are affected by DER but are not provided by the utility funding the DER in the primary test.
- g. Determine the relevant societal impacts based on articulated policy goals and objectives. Review the societal impacts currently accounted for in IOUs’ TRC test and identify gaps. What methodologies can be used to quantify or account for “hard to quantify” societal impacts?
- h. Discuss whether and how the primary test can be applied to all DER types.
- i. Discuss whether secondary tests are warranted and, if so, what those tests should be.
- j. Review the process and considerations for selecting a discount rate for primary and secondary tests.

WRITTEN COMMENTS

The Commission provides notice that interested persons may file comments in this Docket by 5 p.m. on Tuesday, December 14, 2021.

Pursuant to WAC 480-07-250(3), written comments must be submitted in electronic form, specifically in searchable .pdf format (Adobe Acrobat or comparable software). As provided in WAC 480-07-140(5), those comments must be submitted via the Commission’s web portal at www.utc.wa.gov/e-filing. If you are unable to submit documents via the portal, you may submit your comments by email to the Commission’s Records Center at records@utc.wa.gov or by mailing an electronic copy to the Commission’s Records Center on a flash drive, DVD, or compact disc that includes the filed document(s). Comment submissions should include:

- The Docket number of this proceeding (Docket UE-210804).
- The commenting party’s name.
- The title and date of the comment or comments.

The Commission will post on its website all comments that are provided in electronic format. The website is located at <https://www.utc.wa.gov/casedocket/2021/210804> .

If you are unable to file your comments electronically the Commission will accept a paper document by mail.

If you need translated materials, please contact records@utc.wa.gov or call (360) 664-1234.

STAY INFORMED OF THIS PROCEEDING

Information related to this proceeding, including stakeholder comments, will be posted on the Commission's website as it becomes available. Persons filing comments in response to this Notice will receive future communications the Commission issues in this Docket. If you do not file comments but wish to receive such information you may contact the Commission's Records Center by telephone at (360) 664-1139 or by email at records@utc.wa.gov and ask to be included on the mailing list for Docket UE-210804.

When contacting the Commission, please refer to Docket UE-210804 to ensure that you are placed on the appropriate service list. The Commission's mailing address is:

Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

If you have questions regarding the workshop or opportunity to comment, you may contact staff lead Jennifer Snyder at (360) 664-1311, or by email at jennifer.snyder@utc.wa.gov.

AMANDA MAXWELL
Executive Director and Secretary