

**NW Energy Coalition Response
to Commission Notice of Opportunity to File Written Comments
Docket U-180907
January 17, 2019**

The NW Energy Coalition respectfully submits these comments in response to the Commission's Notice of Opportunity to File Written Comments in Docket U-180907 issued December 17, 2018. Included in this response are comments associated with questions posed by the Commission in the December 17 notice and written responses to the questions posed for the Workshop held on December 10, 2018.

Response to December 17, 2018 Notice Questions

1. Please identify the problem statements and principles that are important to you or your constituency. Please indicate which problems are the most important to address during this process and which principles are most important to consider when developing potential solutions.

The Coalition is interested in how to reform the utility regulatory process in a manner that provides a fair rate of return for utilities based on traditional objectives such as safety, reliability and affordability, along with newer public policy objectives of minimizing or eliminating environmental impacts and pursuing universal service in a way that benefits all customers equitably. Core to this shift in the regulatory system is broader participation and input from diverse customer groups, especially those that have been most impacted by past decisions and who are currently underrepresented in Commission processes.

Most significantly, the Coalition is interested in exploring:

- 1) Which methodologies or approaches would enable the Commission to fully incorporate the social and environmental costs and benefits of utility operations into decision-making?
- 2) How can the Commission expand public input and participation in the regulatory process to ensure the highest and best service to all customer groups – especially those that are underserved by current programs and services?

2. During the December 10, 2018, workshop, stakeholders identified several potential principles to guide the Commission's consideration of alternatives to the current regulatory framework, including, among others, net customer benefits, equity, alignment of customer and utility incentives, universal access, safety, reliability, affordability, customer choice, innovation, environmental protection, and alignment with state policies. Please provide comments on problem statements and principles raised by other stakeholders during the workshop and provided in pre-filed comments, and discuss their importance to you or your constituency.

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The responsibility of the Commission is to ensure that market-like discipline is exercised over regulated monopolies while ensuring fair and affordable service to all customers and compliance with evolving social and environmental policies and standards. Customers have the right to use any power they generate themselves and receive a fair price for power returned to the grid. We would not necessarily agree with those who advocated that utilities not be allowed to own any generating resources; rather, we would urge the Commission to consider how and to what degree power purchase agreements, leases and other ownership structures could be facilitated by alterations to the current earnings structures.

Written response to December 10, 2018 Workshop Questions

- *How are developing industry trends, new technologies, and public policy in the utility sectors affecting the effectiveness of traditional rate-base, rate-of-return regulation?*

The Commission helps to fulfill the regulatory compact by defining the ways in which utilities can recover their costs from ratepayers under a “cost of service” model. In practice, the current regulatory structure allows for utility economic return based largely on large capital expenditures and load growth. Large capital expenditures have typically been fossil fuel generation (coal and natural gas plants) and, in some cases, nuclear plants – all of which are taking a considerable toll on our environment. In particular, the economic incentives motivating ever increasing load growth are inherently counter to advancing energy efficiency and distributed renewables, so much so that we have been forced to create regulatory mechanisms to correct for these distortions – such as decoupling, net-metering and feed-in-tariff policies.

Overtime, the public interest related to utility services has expanded to include an awareness of the environmental and social impacts. Minimizing environmental harms, including air pollution, greenhouse gas emissions and impacts to water resources and fish and wildlife are not an explicit regulatory responsibility of the WUTC. However, they are important public policy goals of the State of Washington, which have both quantifiable and qualitative impacts. Overtime, specific statutory requirements have been enacted to advance these goals through the regulatory structure for electric utilities.

While the traditional regulatory structure, which relies on “least cost, least risk” resource planning and cost of service rate setting, was, at one time, conceived as necessary to ensure the build out of our safe, reliable electric system, it is worth revisiting whether this structure is still appropriate in today’s ever changing technology world. Energy efficiency, which is a proven resource that has significantly reduced load growth and kept consumer electricity costs down, and distributed generation, storage and demand response which will do the same, are and should be part of utility services, but are not adequately addressed in current revenue regulation. Further, environmental values are becoming increasingly significant, and must be accounted for in risk assessment and the utility regulatory model, to minimize intergenerational cost shifting, among other reasons.

- *What are the advantages and disadvantages of traditional rate-base, rate-of-return regulation under current market conditions?*

The traditional rate-base, rate-of-return regulation has served us well. It has provided for the build out of a utility system that delivers safe, reliable, affordable service to all who need it. However, this traditional model encourages large capital investments in the form of the development of large, primarily fossil resources and sometimes the building of transmission and distribution system additions that could be better served by non-wires solutions. These decisions have serious environmental impacts and additionally may no longer be the least cost option for customers. Additionally, the cost and environmental impacts of the system impact certain groups of customers more than others – and this disproportionate impact is not addressed to an adequate extent in our current regulatory model.

While it is important to create economic opportunity for utilities and mechanisms to minimize cost, it is a delicate balance to ensure the reliable, safe provision of service to all customers. As mentioned previously, strong regulation of this sector is essential. However, it is possible to have strong regulation in a manner that differs from the traditional regulatory model.

- *Would potential alternatives to traditional regulation, including performance-based regulation, multi-year rate plans, and other flexible regulatory mechanisms better align the utility business model with customer interests and public policy objectives?*

The Coalition urges the Commission explore other regulatory approaches that might better align utility earnings with current public policy goals and the realities of today's utility system. In addition to mechanisms that provide adjustments to the traditional cost of service model, such as revenue decoupling, which is already widely used in Washington, other approaches such as multi-year rate plans, shared savings mechanisms and performance incentive mechanisms should be carefully considered. New procurement practices that better combine supply and demand side resources, changes to treatment of capital and operational expenses, and allowing utilities to generate revenue from integrating and coordinating third party services or providing services made possible by new technologies should also be assessed.

Performance based ratemaking offers the promise of updating the regulatory system to better align today's realities and societal needs with utility incentives. Done correctly, this could incentivize and encourage direct alignment with the Commission's current regulatory directives to promote universal service, safety, reliability, and affordability, while also directly promoting public policy goals that have to date been less directly addressed in the regulatory structure such as environmental protection (most urgently greenhouse gas reduction) and social, economic and environmental justice.

The goal of performance based ratemaking should be to reform the existing structures that incentivize capital investment and instead create a more balanced incentive structure that

values existing regulatory goals (universal access, reliability, safety, affordability) as well as environmental and decarbonization goals and social and environmental justice.

- *What conditions should determine whether the Commission applies these alternative mechanisms?*

In considering a transition to alternative ratemaking mechanisms, the Commission should ensure that their traditional role in addressing safety, reliability, and affordability and the public interest remains strong or is strengthened. This transition should not be about *less* regulation, but should be about *improving* the existing regulatory structure to better achieve outcomes that are in line with current industry trends, market developments and the public interest.

- *Does the Commission have sufficient authority to implement alternatives to traditional regulation?*

Generally, the Coalition takes the position that the Commission currently has the authority to make the changes necessary to the regulatory process to better align the public interest and utility ratemaking processes.

- *What rulemaking or policy guidance from the Commission could help make rate regulation more efficient and effective?*

The Commission should issue policy guidance regarding the scope of an investigation into rate regulation reform. Stakeholders and interested parties should be encouraged to participate in such an investigation to help the Commission determine the types of reforms that might be desirable in Washington State. Once the process has narrowed down the scope of reforms that should be undertaken that will better enable a determination whether rulemaking changes are necessary to implement these changes.

- *What is the appropriate scope and order of priorities for a rulemaking or policy statement on this subject?*

The goal of this process should be to conduct a thorough investigation of changes that are needed to better align utility regulatory processes with public policy goals and the realities of the electricity systems of today and the future. Such a public process will need to begin with a basic, level-setting introduction that provides an overview of existing utility regulation in Washington State to ensure that all participants start from a common base of understanding.

Goals and objectives of participants should be explored and discussed in the context of the current regulatory framework in a manner that generates ideas for improvement and reform. The Commission should guide this process to an outcome resulting in

implementation of changes to the current regulatory structure. Implemented changes should seek to update Commission regulatory processes in a way that meets stakeholder and Commission objectives to modernize the approach to regulation and better aligns regulatory processes with the challenges and realities of electricity service today and into the future.