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Executive Director and Secretary
Washington Utilities and Transportation Commission
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Re: Comments of Renewable Northwest regarding the Commission's proceeding to develop a policy statement addressing alternatives to traditional cost of service ratemaking, Docket U-210590.

I. INTRODUCTION

Renewable Northwest ("RNW") appreciates the opportunity to submit written comments in response to the Washington Utilities and Transportation Commission's ("the Commission") May 5, 2025, *Notice of Workshop and Opportunity to Comment* ("the Notice") regarding the ongoing effort to address alternatives to traditional cost-of-service ratemaking. We commend the Commission for its thoughtful and deliberate approach to performance-based ratemaking ("PBR"), as reflected in the April 12, 2024, Interim Policy Statement, which outlined foundational principles and objectives for this proceeding. We also acknowledge the August 2, 2024, policy statement identifying a preliminary set of performance metrics prioritized for reporting—an important step in operationalizing the Commission's policy goals.

RNW strongly supports the Commission's efforts to align PBR design with existing ratemaking and utility planning frameworks while advancing clear policy outcomes. We especially appreciate the focus on metrics that promote decarbonization, renewable energy integration, and grid modernization, each of which will require timely, innovative utility action. In that spirit, we offer the following comments to highlight design principles, performance incentive mechanisms ("PIMs") and potential metric areas—including grid-enhancing technologies and power-purchase agreement ("PPA") based procurement—that will be critical to fulfilling the environmental improvement and customer benefit goals of Washington's PBR program. The goal of these proposed changes is to help ensure utilities meet Washington's ambitious and binding clean

energy mandates in a manner that benefits customers and furthers the public interest. We also offer suggestions related to the scope, sequencing, and content of upcoming phases of this docket. We look forward to continued collaboration at the June 17 workshop and throughout the next stages of this proceeding.

II. COMMENTS

A. Feedback on docket scope and schedule

a. Thoughts on the proposed scope and order of Phases 3 – 5

RNW appreciates the Commission's thoughtful sequencing of Phases 3 through 5 and supports the progression from metric refinement to incentive design and ultimately to integration with utility filings. However, we recommend initiating Phase 4 activities in parallel with late Phase 2 and early Phase 3, particularly for high-priority metrics like grid modernization. Given the Commission's acknowledgement in its August 2024 Policy Statement that GETs offer significant system benefits but were excluded from the first round of finalized metrics due to time and resource constraints, waiting until Phase 4 to formally revisit this topic risks delaying necessary utility actions—actions which will be significantly more impactful if made *early* in the lead up to CETA's 2030 greenhouse gas neutrality mandate. A modular or staggered approach to Phase 4 would allow the Commission to capitalize on stakeholder momentum while accelerating PIM development for critical state policy objectives like renewable integration and decarbonization.

b. Additional topics the Commission should consider addressing in Phases 3 – 5

As the Commission refines the docket's focus on upcoming phases, RNW recommends incorporating a topic on "Grid Modernization for Renewable Integration: Addressing Transmission Constraints through PIM Design" into the workshop or written comment agenda for late Phase 2 or very early in the official phase dedicated to PIM development (currently Phase 4). This topic is somewhat burgeoning and will likely continue to evolve, so stakeholders would benefit from an introduction to these types of technologies—like GETs, battery storage, and advanced grid controls which can relieve transmission constraints and accelerate clean energy deployment. Key topics could include defining measurable outcomes, designing effective PIMs, and ensuring alignment with planning processes and equity goals. It would also be helpful to explore barriers to utility adoption and highlight successful case studies to inform Washington's next steps.

Additionally, RNW encourages the Commission to explore alternative incentive structures that neutralize or reverse the financial disincentives utilities currently face when using PPAs. Under traditional regulation, utilities have no opportunity to earn a return on PPAs, which may

discourage their use even when they represent a least-cost, least-risk, low-emissions path forward. The Commission should develop a PBR mechanism that rewards utilities for selecting cost-effective, carbon-free resources through PPAs. This would create parity between utility-owned and their-party-owned resources, enabling faster progress toward decarbonization and better alignment with the state's affordability goals. Further, diversified financial structures provided by PPAs in addition to utility-owned resources are likely to reduce risk to customers.

c. Additional phases the Commission should consider

If the Commission chooses to maintain the sequential structure of its docket as currently proposed, RNW suggests adding an additional phase—Phase 6: Metric Piloting and Iteration—following initial integration into utility filings. This phase would allow for the monitoring, testing, and refinement of newly developed PIMs and metrics in practice, based on real-world utility data. A formal feedback loop would support continued learning and improvement, a process consistent with the principles outlined by the Regulatory Assistance Project ("RAP") in its PBR report.

B. Feedback on performance incentive mechanism ("PIM") development

The Commission's April 12, 2024, Interim Policy Statement provides a strong and comprehensive foundation, capturing many of the PIM design principles echoed in these comments. Below, we highlight those principles that are especially critical to designing PIMs capable of accelerating decarbonization beyond what market forces or current Washington policy would achieve on their own. Most importantly, we underscore a fundamental point: PIMs—and the broader PBR framework—should be structured to incentivize utility actions that go beyond existing legal and regulatory requirements. This principle should serve as a central pillar in the Commission's ongoing deliberations, ensuring that PBR drives innovation, early action, and ambitious leadership in the clean energy transition.

a. Design principles or general guidelines to inform PIM development

i. Outcome-oriented

As the Commission develops PIMs within a broader PBR framework, these mechanisms must be outcome-oriented, targeting clear, quantifiable progress toward the desired outcomes. Importantly, PIMs should reward utilities for achieving results that go beyond what is already mandated by state policy or reliability standards—not for merely complying with them. Utilities should not receive incentives for actions that are mandated by state energy policy, though the Commission may consider incentives for

early action that lead to decreased cost and risk for customers. For example, while utilities are already obligated under the Clean Energy Transformation Act ("CETA") to achieve greenhouse gas neutrality by 2030 and one-hundred percent clean electricity by 2045, PIMs should incentivize early action, innovative carbon reduction strategies, and faster-than-required timelines, such as accelerating the retirement of fossil assets or enabling increased renewable integration through grid-enhancing technologies ("GETs").

ii. Aligned with policy goals

Equally critical is the alignment of PIMs with state policy objectives, including CETA, SSB 5165 concerning electric power system transmission planning, and other existing resource adequacy requirements. PIMs should encourage utilities to pursue investments and operational reforms—like advanced grid operations, non-wires alternatives, and transmission optimization—that improve system efficiency and enable cost-effective renewable integration. Such incentives should be designed to drive utilities toward superior performance, such as unlocking existing, underutilized transmission capacity or deferring capital-intensive upgrades, rather than simply adhering to existing resource planning requirements.

iii. Measurable and verifiable using transparent methodologies

The success and credibility of any PIM framework depends on its measurability and transparency. The Commission should ensure that all PIMs are tied to verifiable, independently measurable metrics, such as emissions intensity per MWh, or transmission capacity utilization improvements (*e.g.*, dollars of deferred transmission investments *or* MWs of renewable integration enabled by GETs deployment). Transparent methodologies for calculation and reporting are essential to enabling stakeholder oversight as well as clear traceability of progress toward real, value-added outcomes.

b. Strategies, principles, and design elements key to ensure PIMs effectively support PBR goals and outcomes

Goal 1: A resilient, reliable, and customer-focused distribution system. PIMs should incentivize investments in technologies that not only enhance reliability but also enable renewable integration and system flexibility.

Goal 2: Customer Affordability. PIMs should focus on outcomes that lower long-term system costs. By incentivizing utilities to invest in modern grid controls, storage, and time-of-use programs that shift peak demand, the Commission can ensure that decarbonization strategies avoid unnecessary capital expenditures. PIMs tied to avoided

or deferred infrastructure costs will help ensure that the energy transition enhances affordability rather than increasing the cost burden to ratepayers. For example, transmission projects are expensive and have long lead times, but ultimately transmission is vital to the state's decarbonization success. Therefore, the Commission may structure various PIMs to incentivize grid modernization to maximize use of existing infrastructure (*e.g.*, by reducing congestion). Additionally, a PIM designed to incentivize procurement via PPAs will promote least-cost solutions by supporting procurement neutrality (i.e. third-party resources are able to fairly compete with utility-owned assets).

Goal 3: Advancing Equity in Utility Operations. PIMs should be designed to ensure that clean energy investments are equitably distributed, and the best first step toward this goal is to focus on data transparency to ensure benefits are real and measurable, not symbolic.

Goal 4: Environmental Improvements. This goal is foundational to the state's clean energy policies. As noted in the Interim Policy Statement, there were "concerns raised by participants" and "the Commission believes there are significant challenges to further developing" the metrics associated with this goal.[1] We recommend the process to develop Goal 4 begin as early as possible, as there are clean energy technologies without a clear investment incentive, and these creative solutions will be key to edging out emitting generation. PIMs supporting this goal must directly incentivize early and impactful emissions reductions that go beyond statutory mandates. This includes metrics tied to actual emission reductions, accelerated retirement of fossil generation, or improved integration of variable renewables through grid modernization, storage, and flexible demand strategies.

c. Promoting a fair balance between utilities' financial rewards and tangible customer benefits

We understand the NW Energy Coalition ("NWEC"), Climate Solutions, and Washington Conservation Action ("WCA") have collaborated in docket U-230161 to develop a risk-sharing mechanism ("RSM") suitable for certain Climate Commitment Act ("CCA") costs. Proposals were also shared in docket UG-230968 regarding Puget Sound Energy's tariff revision. We suggest the Commission consider whether this discussion be brought to the PBR docket as well, given risk-sharing mechanisms can balance financial risk between the utility and ratepayers, especially in situations where costs or outcomes are uncertain—such as new technologies or pilot programs.

Another key principle promoting a fair balance between utilities' financial rewards and real customer benefits is procurement neutrality: PIMs should incentivize desired

[1] Apr. 12, 2024, Utilities and Transportation Commission Interim Policy Statement (Docket U-210590) at 16.

outcomes, regardless of whether those outcomes are achieved through utility-owned assets or third-party resources. To that end, RNW urges the Commission to consider an incentive mechanism, perhaps an earnings adjustment, for utilities that procure clean energy through cost-effective PPAs. Under traditional regulation, utilities are financially incentivized to own assets because they earn a return on capital investments, whereas PPAs are typically treated as pass-through costs with no shareholder return. This dynamic can discourage the use of PPAs, even when they offer a faster, more affordable, and lower-emissions pathway to meet state goals.

d. Design approaches or mechanisms to consider when developing PIMs

Building upon the recommendation to carry discussions on RSMs to this docket, we also recommend the Commission consider savings sharing mechanisms ("SSM") while developing PIMs to incentivize cost efficiency by allowing utilities to retain a portion of the financial benefits they generate when they outperform cost expectations—especially when doing so advances decarbonization. This approach may apply to grid modernization by encouraging adoption of battery storage, NWAs, demand flexibility, and innovative, lower-cost clean energy solutions. For example, if a utility deploys battery storage and GETs to avoid a $100M transmission upgrade, ultimately at a cost of $60M, a 50/50 sharing mechanism would split the savings between the utility and its customers.

Additionally, well-designed financial rewards can be quite effective in motivating utilities to pursue decarbonization and grid modernization goals. Incentive structures that offer meaningful upside for exceeding performance targets can drive utilities to innovate, adopt new technologies, and accelerate progress beyond compliance. For example, under Hawaii's PBR framework, Hawaiian Electric can earn additional revenue through PIMs by achieving specific performance outcomes such as increasing renewable energy integration.[2] This approach to PIM development marries the utility's financial interest with state policy goals, encouraging proactive behavior.

However, it is essential to recognize that penalties—not just rewards—must play a meaningful role in driving utility accountability and ensuring performance outcomes are met. Without the potential for financial consequences, utilities may lack sufficient motivation to prioritize progress toward decarbonization and grid modernization. Penalties help reinforce that certain outcomes, such as delays in interconnecting clean resources or failure to meet clean energy mandates, are not minor missteps but rather meaningful failures with real consequences. For example, New York's Con Edison faces downside earnings adjustments for underperformance in areas like peak load reduction

[2] See, *e.g.*, "Performance-Based Regulation (PBR) for the Hawaiian Electric Companies (Docket No. 2018-0088), *available at* https://puc.hawaii.gov/energy/pbr/.

and customer engagement in efficiency programs. And in 2022, Con Edison did not achieve its Electric Peak Reduction Earnings Adjustment Mechanism ("EAM"), resulting in no financial reward and highlighting the financial consequences of underperformance.[3] These examples illustrate that a balanced PIM structure—one that includes both "carrots" and "sticks"—is necessary to create credible, enforceable incentives and to safeguard ratepayer and environmental interests.

Regarding the context-specific prioritization of structural variations, we recommend symmetrical mechanisms be used for more mature or critical goals (*e.g.*, emissions reductions), and upside-only mechanisms be used to promote innovation or flexibility.

e. Goals and metrics to be prioritized during PIM development

Among the Commission's stated goals for PBR, the goal of Environmental Improvements (Goal 4) warrants particular attention, as it is most directly aligned with driving the utility actions necessary to advance Washington's clean energy transition. The pace at which utilities adopt renewable and nonemitting technologies to replace fossil generation will have profound and lasting consequences—not only for the climate, but for public health. Communities across Washington, particularly those already burdened by environmental injustice as shown in the Health Disparities Map,[4] are disproportionately impacted by air pollution from fossil generation. Meanwhile, the worsening effects of climate change are already being experienced across the West. Acting early to decarbonize can yield cost savings by avoiding volatile fuel prices, reducing future compliance costs related to potential new regulation, deferring or eliminating the need for expensive fossil infrastructure upgrades, and reducing the risk of stranded assets for fossil generation that inevitably becomes uneconomic to run. By embedding strong, outcome-oriented PIMs that support Environmental Improvements, the Commission can provide utilities with a clear, financial incentive to move faster and get creative in finding innovative solutions that drive decarbonization and capture long-term savings.

More specifically, RNW has consistently advocated for the development of a PBR metric that explicitly supports grid modernization, with a particular focus on GETs and battery storage deployment. While the Commission's August 2, 2024, Policy Statement rightly acknowledges that GETs "can provide numerous benefits at both the transmission and distribution system level," it also notes that limited time and resources prevented full

[3] 2022 Con Edison Earnings Adjustment Mechanism Achievement Report (filed Mar. 31, 2023), State of New York Public Service Commission, Case-19-E-0065 and Case-10-G-0066, *available at* 2022 Con Edison Earnings Adjustment Mechanism ...New York (.gov)https://documents.dps.ny.gov › public › ViewDoc.
[4] Washington State Health Disparities Map, *available at* https://doh.wa.gov/data-and-statistical-reports/washington-tracking-network-wtn/washington-environmental-health-disparities-map.

development of this metric during the initial phase of the docket.[5] RNW urges the Commission to prioritize early discussion and development of a grid modernization metric and associated PIMs, given the critical role such technologies play in enabling the rapid integration of renewable energy resources as required to meet state mandates.

This recommendation aligns with insights from the Lawrence Berkeley National Laboratory's report, *Regulatory Incentives and Disincentives for Utility Investments in Grid Modernization*, which highlights that traditional cost-of-service regulation often discourages utilities from pursuing innovative, expense-based solutions like GETs and battery storage. The report suggests that performance-based incentives can better align utility interests with public policy goals, encouraging investments that enhance grid reliability and efficiency.[6] By establishing a clear metric for grid modernization with outcome-based PIMs, the Commission would not only fulfill the Environmental Improvement goal of its PBR framework but also directly support the rapid integration of clean resources. We strongly recommend that the Commission dedicate sufficient time to the development of this metric for the next iteration of PBR implementation.

III. CONCLUSION

Renewable Northwest thanks the Commission for its continued pursuit of alternatives to traditional cost of service ratemaking. We look forward to further participation in this process.

Sincerely,

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[5] Aug. 2, 2024, Utilities and Transportation Commission Policy Statement (Docket U-210590) at 6.
[6] Wood et al., Regulatory Incentives for Grid Modernization, LBNL (2017). *Available at* https://eta-publications.lbl.gov/sites/default/files/feur_8_utility_incentives_for_grid_mod_rev_062617.pdf.