BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

Relating to the Commission's Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Ratemaking	DOCKET U-210590

COMMENTS OF PUBLIC COUNSEL

June 6, 2025

I. INTRODUCTION

1. The Public Counsel Unit of the Washington Attorney General's Office (Public Counsel) files these comments in response to the Washington Utilities and Transportation Commission's (Commission) Notice of Workshop and Opportunity to Comment dated May 5, 2025 (Notice). In the Notice, the Commission announced the commencement of Phase 2 of this proceeding, in which the Commission seeks to "identify general guidelines and establish the foundational principles for designing Performance Incentive Mechanisms (PIMs)," which it will then use to inform the design of PIMs in Phase 4.[1] Public Counsel offers the comments below regarding the questions shown in the Notice.

II. RESPONSE TO QUESTIONS

A. Feedback on the Updated Work Plan

2. Public Counsel believes that "Phase 3 – Cost containment strategies" is a critical component of the process for developing PIMs and is pleased to see that the Commission intends to devote time to this topic. However, the description of this phase is somewhat ambiguous. Specifically, it is unclear whether the Commission intends to thoroughly examine cost containment incentives implicit under various regulatory frameworks, including various multi-year rate plan (MYRP) designs, cost of service regulation, and other regulatory mechanisms that may be in place (such as cost trackers). Public Counsel submits that a detailed review of these regulatory frameworks, particularly the way in which revenues are earned and recovered, will be critical to determining to what extent utility revenues should be subject to PIMs. Every

[1] UTC Notice of Workshop & Opportunity to Comment (May 5, 2025).

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regulatory model creates implicit financial incentives for utilities, and PIMs are most effective when they are designed to correct, supplement, or rebalance these incentives to better align utility behavior with public interest goals.

3. Public Counsel recommends that the Commission expand Phase 3 to explicitly evaluate the incentives inherent in various regulatory frameworks, as this will inform the discussion regarding the extent to which utility revenues should be subject to PIMs and other aspects of Policy Based Ratemaking (PBR).

B. PIM Prioritization and Design Principles

4. While all of the goals and metrics established in the Commission's August 2, 2024, Policy Statement Addressing Initial Reported Performance Metrics are valuable, Public Counsel submits that Goal 2, Customer Affordability, should be prioritized. A strong emphasis on affordability will help ensure that utilities pursue energy policy objectives in a manner that minimizes costs to customers. In addition, Public Counsel emphasizes the importance of incorporating equity considerations into all applicable metrics—including those related to affordability—to ensure that average outcomes do not obscure underlying distributional inequities.

5. In terms of design principles, Public Counsel refers the Commission to the attached report, *Utility Performance Incentive Mechanisms: A Handbook for Regulators*, authored by Synapse Energy Economics.[2]

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[2] Public Counsel Attachment A, also available at https://www.synapse-energy.com/sites/default/files/Utility%20Performance%20Incentive%20Mechanisms%2014-098_0.pdf (last accessed June 6, 2025).

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6. Public Counsel emphasizes the following principles and best practices for the design and implementation of PIMs:

- PIMs must be integrated thoughtfully within the existing regulatory framework—whether traditional cost-of-service, multi-year rate plans, or hybrid models. They should be designed to correct or supplement existing incentives, not duplicate or distort them. For example, if a utility recovers PIM-related costs through a capital tracker, it may face little pressure to pursue the PIM target cost-effectively, undermining customer value.
- Financial incentives (both rewards and penalties) should be proportionate to the utility's level of control over the outcome and to the net value delivered to customers. This value should reflect both the benefits achieved and the full costs incurred to achieve them—including any incentive payments.
- Shared savings mechanisms can be especially effective in aligning utility and customer interests, as they directly tie utility earnings to verified net benefits for customers.
- PIMs should not reward utilities for actions they would have taken anyway, nor for meeting basic utility obligations. In such cases, penalty-only mechanisms may be more appropriate, serving to enforce core standards without unnecessarily increasing customer costs.
- Equity considerations should be embedded in the design and evaluation of PIMs where possible, as averages can obscure distributional impacts. Metrics and targets

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should be assessed to ensure that benefits are equitably shared and that vulnerable or underserved populations are not left behind.

- PIMs should be designed to minimize gaming and unintended consequences. This includes clearly defined metrics, reasonable baselines, and safeguards to prevent utilities from optimizing performance on one metric at the expense of others (e.g., reliability versus affordability).

III. CONCLUSIONS

7. Public Counsel appreciates the opportunity to provide these comments regarding the work plan for Phase 2 and PIM design principles.

Dated this 6th day of June 2025.

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