NWEC Responses to Questions for consideration
Consolidated Docket 191023
September 11, 2020

The NW Energy Coalition appreciates the opportunity to submit responses to questions posed by staff, as well as additional comments on the second set of discussion draft rules, along with redline edits to the draft rules, attached.

1. *Do you agree with Staff's interpretation of RCW 19.405.060(1)(c) that Commission approval is contingent upon the utility justifying and supporting each specific action it takes or intends to take, including providing the business cases supporting each specific action identified in the CEIP? Please explain your response.*

    a. Yes. The CETA statute is very clear on the requirements in this regard. RCW 19.405.060 (1)(b)(iii), regarding the Clean Energy Implementation Plans, requires utilities *to "identify specific actions to be taken by the investor-owned utility over the next four years, consistent with the utilities integrated resource plan and resource adequacy requirements, that demonstrate progress toward meeting the standards under sections 4(1) and 5(1) of this act and the interim targets proposed under (a)(i) of this subsection."* The following subsection RCW 19.405.060 (1)(c) states "*The Commission, after a hearing, must by order approve, reject, or approve with conditions the investor-owned utility's clean energy implementation plan and interim targets*." The Commission cannot and should not approve a plan containing actions to be taken by the utility without a thorough understanding of those actions. Furthermore, a requirement by the Commission for this information is particularly important if a utility intends to meet the compliance by relying on the 2% incremental cost compliance option at (3)(a), because the Commission will ultimately decide whether the actions taken to comply with the standards in sections 4(1) and 5(1) allow the utility to rely on the 2% incremental cost. This alone will require a thorough understanding of each action, the underlying business case and financial aspects of the action.

2. *Several comments submitted in response to the first draft CEIP rules proposed that the Commission require some form of funding to support equity-related public engagement. Specific proposals ranged from requiring utilities to provide funding support for participation in a utility's equity advisory group to utilities funding support for equity-focused intervenors.*

    a. *Does the Commission have the authority to require utilities to provide funding to support equity participation such as intervenor funding or direct payments to advisory group members?*

    Unfortunately, for many individuals, a major barrier to participation in any public process is the lack of time to contribute their experience and viewpoints either during the day, possibly due to job conflicts or in the evenings, due to perhaps

second jobs or family issues. These are people who can provide their unique perspective and views. It may take a bit of extra effort to ensure all voices are heard. NWEC views the contribution of equity participants to be similar to the participation of other advisory entities. The Commission has the authority to enforce the requirements of and create rules to carry out CETA (RCW 80.01.040(3) and (4)); therefore, requiring compensation or support of equity-related participation complies with CETA.

b. *If so, what type(s) of funding should the Commission require, and how would utilities implement such funding? For example, if you advocate direct payment to advisory group members, how would the utilities structure those payments (e.g., based on an hourly rate, per diem, etc.)?*
Whatever funds are finally designated for such use, the ultimate approval of the expenditures should be with the Commission. It may be premature to determine how much funding is needed and how it is distributed until the Commission, stakeholders and equity participants have had a chance to discuss questions of participation and hear from equity participants what their specific needs are. NWEC is open to further discussion of what kinds of guidance should be developed to ensure fairness and effectiveness of any funding approach.

c. *What other issues arise if the Commission were to require utilities to provide funding or direct payments to support equity advisory group members?*

3. *The Commission appreciates the value stakeholders have said they see in having commissions and the agency participate in broad conversations about equity needs. Due to restrictions on commissioners taking part in ex parte conversations concerning items that are before the Commission to decide, the commissioners cannot engage in such conversations or otherwise participate in utility advisory groups to discuss issues related to particular CEIPS. However, the Commission will be involved in the process through workshops, special open-meetings, and other available proceedings with stakeholders to discuss important issues. The Commission additionally awaits guidance from the state Environmental Justice Task Force on agency engagement with equity issues and looks forward to addressing recommendations internally and throughout agency divisions as needed. The Commission is further committed to addressing agency awareness of equity issues and needs through continued agency-wide learning. The concerns stakeholder raised through their comments are beyond what this single rulemaking can address and may be better addressed outside of this docket. In preparation for future process discussions, please provide a list of CETA-related topics the Commission should address immediately following or concurrent with this rulemaking.*

   a. *How utilities can include vulnerable and low-income customers and organizations in preparing plans for public participation.*
   b. *Input from vulnerable and low-income communities as to what would constitute the most effective assistance to promote participation (evening meetings, child care, organizational training, etc.)*

c. *How should participation be measured? What are critical benchmarks for determining outreach success?*
d. *How should monetary support for participation be determined?*
e. *What educational materials, if any, would be helpful for newly involved and how many languages should it be translated into?*

4. *Draft WAC 480-100-610(6) requires each utility to adaptively manage its portfolio of activities to achieve the requirements in the section. Some commenters recommended that this section belongs in the section that describes the CEIP. Staff proposes to place this provision in section 610 because adaptive management is an expectation of all the utility's investments and operations for achieving the requirements of CETA. Please state whether you agree that this adaptive management requirement is appropriately placed in section 610 and explain your response.*

   Adaptive management is a best practice for utility planning. As such, it is relevant and should be a requirement of both the integrated resource plan (IRP) and the clean energy implementation plan (CEIP). Under CETA statutory language, the IRP informs the CEIP. From this, it can be understood that adaptive management in the IRP informs the development of the CEIP and thus is a concept relevant to both steps in the planning process.

5. *When a utility files its CEIP, it will include an estimate of its incremental cost of compliance, which is the difference between the portfolio of actions it will take to comply with RCW 19.405.040 and RCW 19.405.050 and the portfolio of the alternative lowest reasonable cost and reasonably available actions (the baseline portfolio). At this stage, both portfolios will estimate inputs, such as natural gas prices, over the four-year period. When the utility files its CEIP compliance report and calculates the actual incremental cost at the end of the four years, the utility will use the actual costs for the portfolio of actions it took. However, for purposes of determining if the utility may rely on the incremental cost provision, the Commission must determine whether the utility should update the inputs to the baseline portfolio as well. If the utility does not update the inputs to the baseline portfolio, then it is not measuring the true incremental cost between the two portfolios because they use different input assumptions. However, updating the assumptions may leave the utilities exposed to unknowable changes in circumstances for which they could not reasonably plan, such as a rapid increase or decrease to natural gas prices.*

   In draft WAC 480-100-660(4)(c), Staff proposes to require the utility to update the verifiable inputs of the alternative lowest reasonable cost and reasonably available portfolio (baseline portfolio). Please respond if the utility should be required to update the assumptions in its baseline portfolio when reporting its actual incremental costs, or if it should not.

   Yes, a utility should update the assumptions in the baseline portfolio, as it will have full knowledge of actual costs. This is the only method that will produce reliable and accurate accounting of actual costs of compliance with CETA. The incremental cost cap

provision in CETA states that in order to utilize the provision, if the *"average annual incremental cost of meeting the standards or the interim targets established under subsection (1) of this section equals a two percent increase of the investor-owned utility's weather-adjusted sales revenue to customers for electric operations in the previous year… "* The underlined section clearly intends for the calculation to be based on actual costs of meeting the standards. Nothing in the statute states, implies or even infers a cost calculation based on projected or estimated costs.

The Coalition understands that for planning purposes, it will be important for utilities to estimate actions that could lead to meeting or exceeding the cost cap, in order to manage CETA compliance activities. However, basing compliance with the 2% incremental cost provision on these estimations would be a violation of CETA. The Commission can, and should, however, take into consideration the imperfections of planning under uncertain conditions when reviewing a utility's CEIP. The Commission should allow some flexibility under the circumstances where a utility made its best effort to estimate future conditions under a CEIP in setting targets and actions, but where changing conditions led to a modified outcome. For example, if a utility shows in its CEIP that it is likely to meet the 2% incremental compliance cost and proposes actions accordingly, yet actual costs come in lower than expected, resulting in an under-achievement relative to CETA and the incremental cost calculation, the Commission, rather than issuing a fine could simply order that the utility pursue additional action items to make up the short fall in target activity. The Commission has broad authority under CETA to carry out reasonable implementation decisions to ensure that the legislative intent of the law is fulfilled.

6. *The Commission is considering two alternative interpretations of the incremental cost of compliance option in RCW 19.405.060. First, both interpretations find the Directly Attributable Costs of compliance by finding the difference between the RCW 19.405.040 and RCW 19.405.050 Compliant portfolio and the baseline Portfolio.*

.040 &.050 Compliant Portfolio – Baseline portfolio = Directly attributable Costs

To determine whether the utility can exercise the incremental cost compliance option, the Commission is considering two alternative interpretation. One interpretation calculates incremental cost as the directly attributable cost in any given year, and the other interpretation calculates incremental cost as the year-over-year change in directly attributable cost. The Department of Commerce's draft rule, WAC 194-40-230(1)(b) – Compliance using 2% incremental cost of compliance, takes the second approach:

Interpretation 1: $\frac{\text{Directly Attributable Costs}}{\text{Weather Adjusted Sales Revenue}}$

Interpretation 2: $\frac{\text{Change in Directly Attributable Costs from Previous Year}}{\text{Weather adjusted Sales Revenue}}$

Please respond with a recommendation for the appropriate calculation. See Attachment C to the Notice for sample calculations of these two interpretations.

Interpretation 2 is correct. The incremental cost is the change in costs over a specific period of time – in this case the change in the annual costs associated with the additional actions to be taken by a utility to comply with Sections 4(1) and 5(1) of CETA. Common meanings for incremental include "additional", "small changes over time", "small increments"– interpretation 1 would contradict the common meaning of that term.

The Coalition reviewed staff's sample calculation methods. Interpretation 2 is consistent with the statute. We point out, however, that in the excel file the value for "direct costs of compliance" is not specified. Accurate calculations will rely on this value being appropriately calculated for each year with only the incremental or additional costs uniquely associated with each year being counted toward that annual calculation. Because there are various factors involved in the calculation, there may be multiple ways to actually perform the calculation of the incremental cost that align with the statutory intent. We do not propose a preference for any particular calculation, but rather stand on the statutory meaning of the term incremental cost, as described above. In this regard, we do believe the proposed rule language is accurate.

7. *Commenters have raised additional concerns about how utilities should demonstrate the elimination of coal from the allocation of electricity. Current draft rule language relies on attestations or audits and e-tags. Some commenters suggest waiting for the work of the markets workgroup to finish before developing rules for compliance with RCW 19.405030(1)(a). Do stakeholders have concerns about whether e-tags are capable of tracking all electricity generated from coal-fired resources? Should the commission wait for recommendations or comments from the markets workgroup before addressing this issue in rule?*

   The Coalition supports this requirement. Furthermore, no commenters objecting to this requirement have proposed a viable option for ensuring compliance with this section of CETA. As this section requires very near term (2025) compliance that the utilities must plan for immediately, the Coalition recommends retaining this requirement in the rules for clarity and does not recommend leaving this compliance obligation ambiguous or undone in this set of rules.

General Comments

NWEC takes this opportunity to propose changes to this version of the second discussion draft; some are edits that we have proposed before and some are new in response to new language in this draft.

WAC 480-100-605 Definitions:

"Energy assistance need": here we repeat our previous comments that "equal to" is too restrictive and ask that the wording in this definition be changed to "no higher than" six percent to provide important flexibility to utilities to serve the unique needs of customers in their service territory.

"Energy security": We previously proposed including this definition; however, given the press of time, we appreciate the commitment to revisit this concept in the near future in another docket.

"Indicator": limiting the definition of indicator to an attribute of resources or distribution investments is too narrow to adequately accommodate the broad directives in CETA to consider equity, such as at 480-100-655(5)(a)(i) and (ii). For example, some appropriate indicators will be process oriented, which are not attributes of resources or distribution investments. The Coalition provides redlines to clarify the definition of "indicator" given the broader application in CETA.

"Integrated resource plan": While the staff comments in the matrix align the definition of integrated resource plan with 19.280.020, the Coalition is concerned that this previous definition leaves out demand response and other flexible tools to focus more on generating resources and renewable resources. For that reason, we provide redlines to the definition that explicitly include demand response, and provide a more holistic perspective of meeting utility system operations, rather than focusing on renewables integration specifically.

"Lowest Reasonable Cost": NWEC is pleased to see the definition include compliance with 19.405 RCW and the required demonstration that the mix of resources will be clean, affordable, reliable and equitably distributed. However, this definition also leaves out demand response. For this reason, we propose limited redline edits to provide explicit acknowledgement of a broader set of demand-side options, as required by CETA.

"Retail electric sales" The Coalition repeats our previous recommendation to add a definition for retail electric sales to the rules.

WAC 480-100-610 Clean Energy Transformation Standards.

The Coalition only offers one minor edit to this section in our redline comments – the addition of the requirement to pursue all demand response, as required by CETA.

WAC 480-100-615 Purpose of integrated resource planning.

No comments at this time.

WAC 480-100-620 Content of an Integrated Resource Plan.

Planning Horizon, Section (1): The Coalition recommends specifying a 20-year planning horizon for the IRP. Please refer to our redline comments for specific edits to section (1).

Resource Adequacy, Section (7): The Coalition recommends including more specific language regarding the expectations of the utility analysis with regard to resource adequacy in this section. In particular, the attached redlines recommend the addition of language that clarifies the general meaning of resource adequacy and provides some direction about what the analysis should

include. The Coalition would like to ensure that demand-side resources and storage are evaluated along-side generating resources and that all resources are evaluated based on the contributions they make not just to energy, but a broader range of system needs such as annual coincident peaks, seasonal peaks, daily ramps and long-duration stress events.

Resource Adequacy has come to mean a specific approach that has clear limitations for the grid of the present, and it certainly does not address the requirements for the grid of the future. The most prominent methods for assessing resource adequacy are founded on limited analytical foundations. There is no consensus on how to value the loss of grid service nor how to formally measure the contribution of resources to a defined RA requirement. Many RA program mechanisms are prone to overbuilding conventional thermal generation while setting aside more flexible, resilient and less costly clean energy resources.

During the transition to a stable, sustainable resource adequacy mechanism, it will be important to maintain forward progress on including all resources and all their capabilities, providing compensation related to grid value, and maintaining and improving reliability and support of grid operations and markets.

Climate change impacts, Section (9): Section 9(b) requires one scenario that is informed by climate change. We are puzzled by this recommendation. Unfortunately, climate change is a reality of our times – science is increasing in its ability to predict future impacts to temperature, hydrological conditions and other factors relevant to utility planning. It is no longer appropriate to reflect these changing conditions in one scenario, but rather utility planning should reflect the best available science about how our climate is changing as inputs to the modeling in *all* scenarios. This is the approach taken in the current 2021 Plan that the NW Power and Conservation Council will release early next year and should set the standard for integrated resource planning throughout the region. We have provided associated redline comments that reflect this recommendation.

Portfolio analysis and preferred portfolio, Section (10):
CETA requires electric utilities to incorporate the SCGHG as a cost adder when developing integrated resource plans (and clean energy action plans) as is clearly stated at 19.280.030(3). The lack of any requirement for SCGHG in the current draft rules related to portfolio analysis in IRP's is a significant omission. The UTC must incorporate clear guidance regarding how utilities are required to incorporate the SCGHG cost adder in IRPs, as well as the CEAPs.

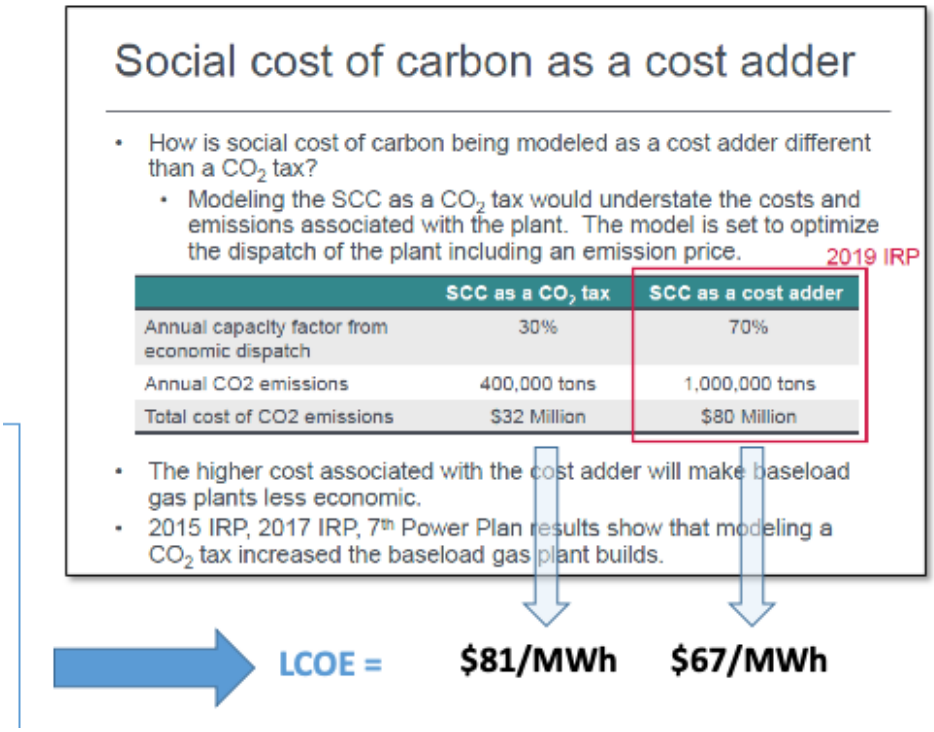
The requirement to incorporate the social cost of greenhouse gas emissions is perhaps one of the more technically complicated aspects of CETA, creating a challenge in formulating effective, yet understandable rules that can be implemented in a straightforward manner such that compliance can be easily determined. The SCC does not function as a tax that is passed through to customers, but as an external cost that must be incorporated in resource investment decisions. The SCGHG represents currently externalized costs that must be incorporated in any planning to accurately model the cost of fossil fueled generators when considering new resource acquisition or choices between various resources, such as conservation and demand response. The goal of the rules should be to ensure consistent application of the SCGHG that upholds the legislative intent of CETA.

For utilities that utilize dispatch modeling, it is essential that the SCGHG be included in all unit operating costs and market purchases in the modeling process. If these costs are not included in a manner that incorporates them into model resource decisions, for example, if they are added to the portfolio as a cost after the dispatch modeling is run, this will distort model decisions.

The Coalition agrees that the SCGHG should not be added to resources other than Washington resources when using a dispatch model run to establish region-wide pricing (WECC or Mid-C Prices), which is often the first step in IRP modeling. However, if a subsequent dispatch model run is used to determine the resource selection for the utility's needs, the cost adder should be applied to all fossil resources in that model run. Furthermore, it is critically important that the cost adder be applied as a variable cost (not a fixed cost) so that the adder is taken into consideration by the model regarding resource decisions in order to provide the appropriate cost signal for emitting resources.

Importantly, approaches that omit the cost adder from the resource decision phase of modeling or assign the cost as a fixed cost, disadvantage demand-side resources, which require a fine-grained approach to pricing in model selection. The only effective way to select the accurate amount of energy efficiency and demand response resources, which are often bundled into groups by cost, is to make sure the SCGHG is reflected in the variable costs of the emitting resources as the model is selecting these resources.

Treating SCGHG as a fixed cost may raise the capital cost of the certain thermal resources, but may well lower levelized costs (a per MWH measure) (see figure below). The model's economic "incentive" is to add thermals and run them more because they become more economical the more they run, as their upfront fixed cost is spread over more and more MWhs. By excluding SCC from dispatch modeling, it is more likely that certain new and existing thermal resources will *run more* than if the SCGHG was accounted for in their dispatch costs. As a result, the incorrect price signal is being sent to the model, especially when selecting against demand-side resources. Consequently, there will be no way to test if higher amounts of demand-side resources will result in a lower cost/lower risk portfolio.



Additionally, applying the SCGHG after modeling, as a portfolio cost, will not allow optimal selection of the correct amount of demand-side resources; therefore, resource portfolios with the cost added on at the end will tend to have little variation in the amount of these resources, which leads to no opportunity to adequately test whether higher amounts of demand-side resources will result in a lower cost/lower risk portfolio.

The Coalition recommends language be added to section 10 that clarifies that a utility must incorporate the SCGHG in all portfolios considered in the IRP analysis. The SCGHG must be included as a variable cost on all emitting resources in modeling stages and all market purchases that determine utility resource selection. Please see attached redline suggestions.

Clean Energy Action Plan (CEAP), Section (11): NWEC suggests a small edit to section (11) Clean Energy Action Plan (CEAP) as follows: (j) Incorporate the social cost of greenhouse gas emissions as a **variable** cost adder as specified in RCW 19.280.030(3). Please see attached redlines.

Avoided Cost, Section (12): We appreciate and support the changes to section **(12) Avoided cost**. We have one small addition which, based on the staff responses in the matrix, we believe is an overlooked omission. In the comment matrix, staff expressed an intention to add language to this section directing utilities to demonstrate how they have included the SCGHG in avoided cost calculations – this was omitted from the draft rules. We have suggested placement for this in our redline comments and urge inclusion of this statement in the rules to comply with the SCGHG requirements in CETA.

WAC 480-100-625 Integrated Resource Plan Timing.

The Coalition suggests a small clarifying edit to this section to restore the 2021 date for the initial IRP deadline. The original date of January 2021 has been deleted in this most recent version; however, there should be a specific date determined for the first round of IRPs in 2021 even if it is not January 1. This would better align with the definition of the implementation periods.

WAC 480-100-630 Public participation in an integrated resource plan.

We would like to thank staff for their diligent work on this section of the draft rules. The public participation aspects of CETA are far ranging and critically important to the equity components of the law. The Coalition offers a few small edits to this section to improve clarity of the intent to include stakeholders in a meaningful way from the initiation of a utilities integrated resource plan. The rules provide examples of how a utility might incorporate public input, but the last two examples on the list are really examples of good communication, rather than true examples of incorporating feedback. Our redlines provide alternative ideas to replace these examples. Additionally, our redline comments suggest using the term "involve" rather than "consult" in section (1) to reflect a greater degree of involvement by the public. Pursuing real involvement from the start will go a long way to ensuring timely production of IRPs.

WAC 480-100-640 Clean Energy Implementation Plan (CEIP).

This section contains many strong revisions. We strongly support the changes throughout this section, but would like to emphasize the importance of the addition of using proposed indicators or weighting metrics to evaluate equity considerations as a helpful addition that will provide a meaningful, yet flexible structure for utilities to implement the associated requirements in CETA.

WAC 480-100-645 Process for Review of CEIP and Updates

No comments at this time.

WAC 480-100-650 Reporting and Compliance

Annual Clean Energy Progress Reports, Section (3): NWEC agrees with the very clear and specific requirement that renewable energy credits (RECs) for all electricity from renewable resources (RE) used to comply with the standards, specific targets or interim targets be retired, just as the nonpower attributes of non-emitting electric generation must be verified and retired. That is the most straightforward way to ensure there is no double counting or use of renewable or non-emitting resources.

WAC 480-100-655 Public participation in a clean energy implementation plan (CEIP)
There are many good improvements here and the Coalition generally supports the draft rules in this section. We repeat our comments from WAC 480-100-630 regarding public participation in the IRPs pertaining examples used to represent incorporating public input and request that similar edits be adopted here to reflect parallel language. Please see our redline suggestions.

WAC 480-100-660 Incremental cost of compliance
The Coalition supports the rules as written. We strongly agree that the incremental cost differences should be limited to the only those investments and expenses that are directly attributable to meeting the requirements of 19.405.040 and 19.405.050. Additionally, the rules are correct in requiring the alternative lowest reasonable cost and reasonably available portfolio is required by law to include the SCGHG in whatever resource acquisition modeled.

NWEC agrees with the rule's requirement at Reported actual incremental costs 480-100-660(4)(c) that the alternative lowest reasonable cost and reasonably available portfolio inputs should be updated to ensure that cost comparisons are "apples to apples". See our comments above to question 6 for more comments regarding this draft section of the rules.

Cordially,

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