Memorandum

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To: *Jeff Killip, Executive Director and Secretary,* Washington Utilities and Transportation Commission

From: Tom Kraemer[1]/Third Act Washington and Don Marsh[2]/Washington Clean Energy Coalition

Date: June 18, 2024

Subject: Comments on ESHB 1589 Rulemaking, Docket U-240281

Following are our comments on the requirements for integrated system planning in ESHB 1589, as requested by the Commission in its Amended Notice of Opportunity to File Written Comments of May 24, 2024. The Commission requested comments on three specific ESHB 1589 requirements. Our comments address two of those: Section **3**(2)(b) (Compliance checklist and additional guidance for the utility), and Section **3**(10) (Cost Test).

Compliance Checklist and Additional Guidance for the Utility

The Commission requested the following:

> Section 3(2)(b) of the ESHB 1589 requires the Commission to include a compliance checklist and any additional guidance that is necessary to assist a large combination utility in meeting the minimum requirements of all relevant statutes and rules. What should the Commission consider including in a compliance checklist and what additional guidance should the Commission consider providing the large combination utility?

Attached to this memo we provide a draft compliance checklist that we hope will be helpful to the Commission. The draft checklist begins with several paragraphs of guidance for the utility.

Intent of ESHB 1589

The intent of ESHB 1589 and the major relevant statutes it references is to eliminate carbon emissions over time, while minimizing inequities and negative economic impacts. Given the long-term nature of this process and the detailed requirements involved, it is crucial to keep the final goal in focus. Utility planners can lose sight of this overarching goal by getting mired in minutiae. We've seen this in Puget Sound Energy's recent gas plan drafts which assumed unrealistic emissions allowance purchases through 2049 rather than planning for reduced allowance availability as 2050 nears. Our draft checklist introduction emphasizes the legislation's statement of intent.

Focus on Integrated System Plan

Although ESHB 1589, in Section **3** (2)(b) says that the checklist is "to assist the large combination utility in meeting the minimum requirements of all relevant statutes and rules," the draft checklist

[1] tkraemer2@frontier.com, (425)-591-8280
[2] don.m.marsh@hotmail.com

is focused on preparation of the integrated system plan (ISP), since Section **3** (4) requires regulated utilities to "file an integrated system plan demonstrating how the large combination utilities' plans are consistent *with the requirements of this chapter and any rules and guidance adopted by the Commission*." The checklist can assist the utility to address all statutory requirements in the ISP and serve as a guide to the UTC in evaluating a submitted ISP.

ESHB Sections Addressed by the Compliance Checklist

The compliance checklist is organized according to the sections of ESHB 1589. It does not reference all sections of ESHB 1589; only those that require compliance by the utility. Requirements for the following ESHB 1589 sections are *not included* in the compliance checklist because they do not create planning requirements for the ISP:

1 – Findings and Intent
2 – Definitions
4 – Accounting for greenhouse gas attributes in market structures and mechanisms for wholesale electricity; working in good faith with other market participants and customers.
5 – Requirements for certificates of necessity for proposals made by the utility for new renewable or non-emitting electric generation and transmission resources.
6 – Emissions reporting requirements under Washington Clean Air Act (RCW 70A.15)
8 – Rebates and incentives for gas appliances and equipment.
12 – Section consists of one sentence: "The Commission may adopt rules to ensure the proper implementation and enforcement of this act."
13 – Fee adjustments payable to the Commission by the utility, based on gross operating revenue.
19 through **21** - Legislative formalities
22 – Section states the necessity of the Act and that it is effective immediately.

Note that ESHB 1589 Sections **3** (8) through **3**(12) set forth directions to the Commission itself, rather than requirements for the utility, and therefore are not included in the compliance checklist.

Relevant Statutes and Their Corresponding Sections in ESHB 1589

The seven statutes listed at Section **3**(2)(a) in ESHB 1589, that also include requirements for utility plans, are all contained in their entireties within the text of the final bill, with the exception of RCW 19.285.040 referenced in Section **9**, which is contained in the revised HB 1948.SL. The table below indicates the subject matter of each of the seven statutes and the section where it is reproduced in ESHB 1589. Each section identified in the table includes all and only requirements from the referenced RCW section. We found this helpful in cross-referencing the requirements of the sections of ESHB 1589 to the relevant statutes.

ESHB 1589 Sections **3**, **10** and **11** contain original requirements for ISPs. Sections **9** and **14** through **18** require or explicitly allow the Commission to require plans and subplans in the ISP that are defined under the statutes listed in the table below.

Statute	Subject	Section in ESHB 1589
RCW 19.280.030	Integrated Resource Planning for Electric Utilities	Section **9**
RCW 19.285.040	Energy conservation potential	Section **9** (RCW referenced)
RCW 19.405.060	Clean Energy Implementation Plan – Electric Utilities	Section **14**
RCW 80.28.380	Gas Companies – Conservation Targets	Section **17**
RCW 80.28.365	Electrification of Transportation	Section **16**
RCW 80.28.425	Multiyear Rate Plan	Section **18**
RCW 80.28.130	Repairs, Improvements, Changes	Section **15**

Cost Test

The Commission requested the following:

> Section 3(10) of ESHB 1589 requires the Commission to establish by rule a cost test for emissions reduction measures achieved by large combination utilities. On November 7, 2022, in Docket UE-210804, Commission Staff presented a Straw Proposal for a Washington Cost-Effectiveness Test for Distributed Energy Resources. Is this straw proposal an appropriate starting point for developing a cost test for emissions reductions measures? If yes, which components of the straw proposal need further discussion?

What is the HB 1598 cost test requirement?

Section **3** (10) of HB 1589 says "The Commission shall establish by rule a cost test for emissions reduction measures achieved by large combination utilities to comply with state clean energy and climate policies. The cost test must be used by large combination utilities under this chapter for the purpose of determining the *lowest reasonable cost* of decarbonization and electrification measures in integrated system plans, at the portfolio level, and for any other purpose determined by the Commission by rule."

How is the "lowest reasonable cost" determined?

The definition of "lowest reasonable cost," in Section **2** (22) includes a list of specifics:

"Lowest reasonable cost" means the lowest cost mix of demand-side and supply side resources and decarbonization measures determined through a detailed and consistent analysis of a wide range of commercially available resources and measures. At a minimum, this analysis must consider

- long-term costs and benefits,
- market-volatility risks,
- resource uncertainties,
- resource dispatchability,
- resource effect on system operation,

- the risks imposed on the large combination utility and its ratepayers,
- public policies regarding resource preference adopted by Washington state or the federal government,
- the cost of risks associated with environmental effects including potential spills and emissions of carbon dioxide, and
- the need for security of supply."

Thus the cost test is a "detailed and consistent analysis" to determine "the lowest cost mix of demand-side and supply side resources and decarbonization measures," as well as for any other purpose that may be determined by the Commission.

Accounting for the social cost of greenhouse gas emissions

Note that Section **3** (7) requires the utility to "consider the social cost of greenhouse gas emissions… when developing Integrated System Plans and Clean Energy Action Plans," and to "incorporate the social cost of greenhouse gas emissions *as a cost adder* when:

> (a) Evaluating and selecting conservation policies, programs, and targets;
>
> (b) Developing Integrated System Plans and Clean Energy Action Plans; and
>
> (c) Evaluating and selecting intermediate term and long-term resource options.

These costs should be added to alternatives for all greenhouse gas emissions that are not eliminated or offset, even when the emissions are paid for with allowances. Allowances do not offset emissions.

Decarbonization measures must be *cost-effective*

"Cost-effective" has a different definition from "lowest reasonable cost" in ESHB 1589. The intent of the legislature, per Section **1** (5), is to "require large combination utilities to decarbonize their systems by prioritizing efficient and *cost-effective* measures to transition customers off of the direct use of fossil fuels at the lowest reasonable cost to customers;" and by other measures.

The definition of "cost-effective" is, per Section **2** (5), "…that a project or resource is, or is forecast to:

> (a) Be reliable and available within the time it is needed; and
>
> (b) Reduce greenhouse gas emissions and meet or reduce the energy demand or supply an equivalent level of energy service to the intended customers at an estimated long-term incremental system cost no greater than that of the least-cost similarly reliable and available alternative project or resource, or any combination thereof, including the cost of compliance with chapter 70A.65 RCW, based on the forward allowance ceiling price of allowances approved by the department of ecology under RCW 70A.65.160."

According to this definition, in evaluating cost-effectiveness, costs must include the allowance *ceiling* prices for the applicable emission years.

Does the Straw Proposal meet the above requirements?

The November 7, 2022 Straw Proposal for the Primary Cost-Effectiveness Test by Synapse Energy Economics lays out an approach to determining cost-effectiveness specifically for distributed energy resources (DERs). It identifies a long list of potential impacts of DERs and maps state energy policy goals to those impacts. It does not identify specific costs of meeting the goals or methods for estimating them. It concludes by reporting on the progress of methods to quantify and monetize impacts by the regulated utilities.

The cost test required by HB 1589 is more straightforward. It lays out a list of specific criteria for determining a well-defined lowest reasonable cost for emission reductions. It is focused on emission reductions, rather than on DERs or any specific type of generation resource.

While the Straw Proposal provides valuable information on impacts that should be considered, its format and scope do not provide a starting point for the cost test required by HB 1589. A better starting point is the list of considerations included in HB 1589's definition of "lowest reasonable cost" (see above). Next steps would be preparing a list of "a wide range of commercially available resources and measures," and their costs, and formulating a comparative net present value spreadsheet to implement these resources and measures in the timeframes specified HB 1589.

ATTACHMENT

Draft Guidance for the Utility and Compliance Checklist

Guidance for Preparing the Integrated System Plan

Intent of the Legislation

The Washington Decarbonization Act for Large Combination Utilities (ESHB 1589) requires that the regulated utility, in accordance with a timeline set by the Commission, file an Integrated System Plan (ISP) demonstrating how the utility's plans are consistent with the requirements of ESHB 1589 and any rules and guidance adopted by the Commission. ESHB 1589 requires integration of plans prepared under several other statutes, and the ISP must achieve the obligations of all plans consolidated into the Integrated System Plan.

The intent of ESHB 1589 and the major relevant preceding statutes referenced therein is to eliminate carbon emissions over a period of time, while minimizing inequities and negative economic impacts. It is important for the utility to fulfill each of the many individual requirements in an integrated way that best serves that overall goal.

This intent is clearly stated in Section **1**(5) of the bill: "It is the intent of the legislature to require large combination utilities to decarbonize their systems by: (a) Prioritizing efficient and cost-effective measures to transition customers off of the direct use of fossil fuels at the lowest reasonable cost to customers;" and in Section **1**(6): "It is the intent of the legislature to support this transition by adopting requirements for large combination utilities to conduct integrated system planning to develop specific actions supporting gas system decarbonization and electrification, and reduction in the gas rate base."

ESHB 1589 also refers back to the Clean Energy Transformation Act (RCW 19.405), the Climate Commitment Act (RCW 70A.65), and the requirement referenced in the Climate Commitment Act to achieve net zero greenhouse gas emissions in the state according to the schedule set out in RCW 70A.45. Several of the major goals of ESHB 1589 are the following.

Equity

Section **1(**3) states that "…more resources must be directed toward achieving decarbonization of residential and commercial heating loads and other loads that are served with fossil fuels, while continuing to protect all customers, but especially low-income customers, vulnerable populations, highly impacted communities, and overburdened communities." This overall goal must be addressed in the ISP through compliance with the several specific requirements in later sections of ESHB 1589 that apply to low-income and energy overburdened customers, specifically **3** (4)(i), (4)(j), (4)(y)(ii), **7** (2), and **18** (2).

Electrification and Nonpipeline Alternatives

The statement of intent in ESHB 1589 requires actions supporting electrification "to transition customers off of the direct use of fossil fuels." Section **3** (4)(h) requires the ISP to show how the utility will "achieve all cost-effective electrification of end uses currently served by natural gas."

Section **3**(4)(k) requires assessing the potential for geographically targeted electrification for any gas plant that is fully depreciated (or requires accelerated depreciation). Section **3** (4)(m) requires assessing geographically targeted electrification as an alternative to replacing infrastructure that is aging or that expands gas capacity, with specific requirements for the evaluation.

Therefore the Commission requires a geographically targeted electrification assessment for replacing gas infrastructure that includes a gas plant replacement schedule and considers other nonpipeline alternatives.

Evaluation of Distributed Energy, Conservation, Efficiency, Supply Side and Demand Response Resources.

The ISP must evaluate distributed energy sources, i.e. energy generation sources within the utility's distribution system, as well as demand response, conservation, efficiency and supply side resources. In order to evaluate the cost-effectiveness of these resources, they must be compared to alternative energy sources outside the utility's distribution system, including the costs of transmission services. This comparison must include magnitude and cost ranges for solar, wind, storage, efficiency, and supply side resources, conservation and demand response that can potentially be built within the utility's distribution system. They must then be compared to costs and other factors for distant resources, including the costs associated with regional and inter-regional transmission agreements. Evaluating the total energy potential from distributed sources *within* the utility's service area can then be used to determine the amounts that must be supplied by transmission from distant sources.

*Therefore the Commission requires a mapping and cost study including all potential (20-year forecast) and existing distributed solar and wind resources that can be built or acquired within or in close proximity to the utility's service area, and for efficiency, supply side, conservation resources and demand response, in order to meet the requirements of Section **3** (4)(f), (4)(g), (4)(h), and (4)(l) through(4)(v) of ESHB 1589. This study must be updated for each update of the ISP according to the schedule established by the Commission*.

Cost-effectiveness (lowest reasonable cost)

Cost-effectiveness is fundamental for ISPs, as stated in the legislative intent. Detailed definitions of "cost-effective," "lowest reasonable cost," and "costs of greenhouse gas emissions" are included in ESHB 1589. Per the definition of "cost effective" in ESHB 1589 Section **2**, a cost-effective alternative must include the cost of compliance with all requirements of the Climate Commitment Act (RCW 70A.65). That is, a lower-cost alternative may not be selected if it does not meet these requirements.

Format of the ISP

The utility must include in the ISP a list of all ESHB 1589 requirements in the order listed in checklist below, and the location in the ISP where each is addressed.

Compliance Checklist (By Section of ESHB 1589)

The following elements must be included in the Integrated System Plan, each of which is more fully described in the sections and subsections of ESHB 1589 cited in brackets (section numbers in **bold**). The purpose of this checklist is to provide a compact listing of requirements in the statute. Compliance, however, requires meeting the details as spelled out in the statute. In some cases, the Commission may require more or less stringent requirements based on its assessment of technical feasibility.

Section 3 – Reporting and Planning Requirements – General

____ A. Provide a range of forecasts, for at least the next 20 years, of projected customer demand that takes into account econometric data and addresses changes in the number, type, and efficiency of customer usage; [**3** (4)(b)]

____ B. Evaluate scenarios that achieve emissions reductions for both gas and electric operations equal to at least their proportional share of emissions reductions required under RCW 70A.45.020[3] [**3** (4)(c)]

____ **C.** Evaluate scenarios with emissions reduction targets for both gas and electric operations for each emissions reduction period that account for the interactions between gas and electric systems; [**3** (4)(d)]

____ D. Plan to achieve two percent of electric load annually with conservation and energy efficiency resources. Assess commercially available conservation and efficiency resources, including demand response and load management required to achieve this target; [**3** (4)(e) and (f)]

____ E. Plan to achieve annual demand response and demand flexibility equal to or greater than 10 percent of winter and summer peak electric demand; [**3** (4)(g)]

____ F. Plan to achieve all cost-effective electrification of end uses currently served by natural gas identified through an assessment of alternatives to known and planned gas infrastructure projects, including nonpipeline alternatives, rebates, and incentives, and geographically targeted electrification; [**3** (4)(h)]

____G. Achieve low-income electrification programs that [**3** (4)(i)]

- Include rebates and incentives for high-energy burden and low-income customers for high-efficiency electric-only heat pumps
- Provide demonstrated material benefits to low-income participants including: decreased energy burden; the addition of air conditioning and backup heat sources or energy storage systems, if necessary to protect health and safety in areas with frequent outages; improved indoor air quality;
- Provide energy assistance programs or bill assistance;
- Include dedicated funding for electrification readiness;

[3] 45% GHG reduction by 2030, 70% reduction by 2040, 95% reduction and net zero by 2050, all relative to 1990 levels

- Have protections to mitigate energy burden, if electrification measures will increase a low-income participant's energy burden;
- Coordinate with community-based organizations in the gas or electrical company's service territory.
- Accept as proof of eligibility for energy assistance enrollment in any means-tested public benefit, or low-income energy assistance program, for which eligibility does not exceed the low-income definition set by the Commission pursuant to RCW 19.405.020;

____H. Assess the potential for geographically targeted electrification [**3** (4)(k)]

____I. Assess commercially available supply side resources [**3** (4)(l)]

____J. Assess nonpipeline alternatives, including geographically targeted electrification and demand response, as an alternative to replacing aging gas infrastructure or constructing expanded gas capacity, including at a minimum [**3** (4)(m)]

- Identifying all known and planned gas infrastructure projects, including those without a fully defined scope or cost estimate, for at least the 10 years following the filing;
- Estimating programmatic expenses of maintaining that portion of the gas system for at least the 10 years following the filing; and
- Ranking all gas pipeline segments for their suitability for nonpipeline alternatives;

____K. Assess distributed energy resources that meet RCW 19.280.100 requirements; [**3** (4)(n)]

____ L. Assess and provide a 20-year forecast of the availability of and requirements for regional supply side resource and delivery system capacity to provide and deliver electricity and gas meeting chapter 19.405 RCW and GHG reduction requirements in RCW 70A.45.020. [**3** (4)(o)]

____M. Assess integrating renewable resources and nonemitting electric generation, including battery and pumped storage, and addressing overgeneration events. [**3** (4)(p)]

____N. Carry out a comparative evaluation of supply side resources, delivery system resources, and conservation and efficiency resources using lowest reasonable cost as a criterion; [**3** (4)(q)]

____ O. Determine resource adequacy metrics for the Integrated System Plan consistent with the forecasts [**3** (4)(r)] and identify an appropriate resource adequacy requirement and measurement metric consistent with prudent utility practice in implementing RCW 19.405.030 through 19.405.050; [**3** (4)(t)]

____ P. Forecast distributed energy resources that may be installed and their effect on load and operations; [**3** (4)(s)]

____ Q. Integrate demand forecasts, resource evaluations, and resource adequacy requirements into a long-range assessment describing the mix of supply side resources and conservation and efficiency resources that will meet current and projected needs. [**3** (4)(u)]

____R. Assess, per RCW 19.405.140, energy and nonenergy benefits and the avoidance and reductions of burdens to vulnerable populations and highly impacted communities; long-

term and short-term public health and environmental benefits, costs, and risks; and energy security and risk; [**3** (4)(v)]

____ S. Include a 10-year **clean energy action plan** for implementing RCW 19.405.030 through 19.405.050 at the lowest reasonable cost, and at an acceptable resource adequacy standard [**3** (4)(w)]

____ T. The **clean energy action plan** must [**3**(6)]

- Identify and be informed by the 10-year cost-effective conservation potential assessment as determined under RCW 19.285.040, if applicable; [**3**(6)(a)]

- Establish a resource adequacy requirement; [**3**(6)(b)]

- Identify the potential cost-effective demand response and load management programs that may be acquired; [**3**(6)(c)]

- Identify renewable resources, nonemitting electric generation, and distributed energy resources that may be acquired and evaluate how each identified resource may be expected to contribute to meeting the resource adequacy requirement; [**3**(6)(d)]

- Identify any need to develop new, or expand or upgrade existing, bulk transmission and distribution facilities and document existing and planned efforts by the large combination utility to both 1) make more effective use of existing transmission capacity and 2) secure additional transmission capacity and [**3**(6)(e)]

- Identify the nature and possible extent to which the large combination utility may need to rely on alternative compliance options under RCW 19.405.040(1)(b). [**3**(6)(f)]

____ U. Analyze how the Integrated System Plan accounts for: [**3** (4)(x)]

- Model load forecast scenarios that consider the anticipated levels of zero emissions vehicle use
- Relevant information found in the electrification of transportation plans submitted under RCW 80.28.365
- Assumed use case forecasts and the associated energy impacts, which may use the forecasts generated by the mapping and forecasting tool created in RCW 47.01.520

____ V. Establish that the large combination utility has: [**3** (4)(y)]

- Consigned to auction for the benefit of ratepayers the minimum required number of allowances allocated to the large combination utility for the applicable compliance period as required under the Climate Commitment Act.
- Prioritized revenues derived from the auction of allowances, first to programs that eliminate the cost burden for low-income ratepayers, and second to electrification programs benefiting residential and small commercial customers;

____W. Propose an action plan for implementing the Integrated System Plan following submission [**3** (4)(z)]

____X. Report on the large combination utility's progress towards implementing the recommendations contained in its previously filed Integrated System Plan. [**3** (4)(aa)]

____ Y. Apply a risk reduction premium when evaluating the lowest reasonable cost of decarbonization measures included in an Integrated System Plan, which accounts for the applicable allowance ceiling price approved by the Department of Ecology pursuant to the Climate Commitment Act. [**3**(5)]

____Z. Consider the **social cost of greenhouse gas emissions**, as determined by the Commission pursuant to RCW 80.28.405, when developing Integrated System Plans and Clean Energy Action Plans. A large combination utility must incorporate the social cost of greenhouse gas emissions as a cost adder when: [**3**(7)]

- Evaluating and selecting conservation policies, programs, and targets;
- Developing Integrated System Plans and Clean Energy Action Plans; and
- Evaluating and selecting intermediate term and long-term resource options.

Section 7 – Depreciation schedules and rate base mergers and updates for a multiyear rate plan.

____ AA. Provide an updated depreciation study that reduces the gas rate base, proposes depreciation schedules, and demonstrates that any proposed merger of gas and electric rate bases will result in a net benefit to customers of the large combination utility and includes reasonable rate protections for low-income natural gas and electric customers.

Section 9 – Integrated Resource Plan requirements. This Section reproduces the current requirements for Integrated Resource Plans (IRPs) for electric utilities under RCW 19.280.030, with minor amendments. The final amendment states that "The Commission may require a large combination utility as defined in section 2 of this act to incorporate the requirements of this section into an Integrated System Plan."

____ BB**.** Meet other requirements from Integrated Resource Plan (if required by the Commission).

Section 10 – Geographically targeted electrification and consumer owned utilities.

____ CC. Include a process for outreach by the large combination utility to all consumer-owned utilities providing electric service to the large combined utility's targeted gas service areas.

Section 11 – Projects costing more than $10 million.

____ DD. Certify that community workforce agreements or labor agreements are in place, using prevailing wage payment and apprenticeship utilization for projects costing more that $10 million identified in the ISP.

Section 14 – Clean Energy Implementation Plan. [RCW 19.405.060]

____ EE**.** Develop a four-year Clean Energy Implementation Plan for electric utilities

Section 15 – Repairs and Improvements. This section requires repairs, improvements, changes, additions or extensions to any gas and electric plant upon the Commission finding that they "ought to be made." The amendment allows the Commission to "incorporate any existing pipeline safety

and replacement plans under this section into an Integrated System Plan." The Commission may want to incorporate such plans, if any exist, into the ISP requirements. [RCW 80.28.130]

____ FF**.** Include repairs and Improvements (if required by the Commission)

Section 16 – Electrification of Transportation [RCW 80.28.365]

____ GG**.** Develop an Electrification of Transportation Plan (if required by the Commission)

Section 17 – Cost-effective conservation targets [RCW 80.28.380]

____ HH. State a two-year target for acquiring all conservation measures that are available and cost-effective, including cost-effectiveness analysis.

Section 18 – Multiyear Rate Plan [RCW 80.28.425]

____ II**.** Create a multiyear rate plan providing the basis for fair, just, reasonable, and sufficient rates that are in the public interest.