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Jeff Killip  
Executive Director and Secretary  
Washington Utilities and Transportation Commission  
621 Woodland Square Loop SE  
Lacey, Washington 98503

**Re: Comments of Puget Sound Energy in Docket U-240281 – Commission rulemaking required to implement Engrossed Substitute House Bill 1589 (Chapter 351, Laws of 2024)**

Dear Director Killip,

Puget Sound Energy (PSE) submits these comments in response to the Washington Utilities and Transportation Commission’s (Commission) May 10, 2024 Notice of Opportunity to File Written Comments in this docket, as amended on May 24, 2024 (Notice). In the Notice, the Commission invites comments on the implementation of Engrossed Substitute House Bill 1589, Chapter 351, Laws of 2024 (the Large Combination Utilities Decarbonization Act).

**I. General Comments**

The Large Combination Utilities Decarbonization Act is a new law enacted in 2024 that will enable PSE – under the supervision of the Commission – to more thoughtfully plan for electric and natural gas customer choices consistent with Washington’s aggressive climate goals. Traditionally, PSE has prepared and filed a multitude of different plans for its gas and electric businesses on different timelines with the Commission. PSE has made a concerted effort to synchronize these different planning processes to produce consistent and relevant planning documents. Nevertheless, these legacy plans – and the technical, analytical, and participatory processes that inform them – are often duplicative, time consuming, and overlapping with inefficient timeframes for PSE, the Commission, and the public.

In the Large Combination Utilities Decarbonization Act, the Legislature observed that this piecemeal approach to energy planning “might not yield optimal results for timely and cost-effective decarbonization.”<sup>1</sup> The Legislature therefore created a new energy-planning framework centered on the development of an Integrated System Plan (ISP) – a comprehensive new planning exercise that will consolidate and streamline many of PSE’s legacy plans. To enable

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<sup>1</sup> See Large Combination Utilities Decarbonization Act, § 3(1).

this planning transition, the Legislature directed the Commission to adopt rules consolidating the planning requirements applicable to large combination utilities by July 1, 2025.

PSE must file its inaugural ISP by January 1, 2027.<sup>2</sup> As the Notice observes, the Large Combination Utilities Decarbonization Act permits the consolidation of numerous plans under seven different statutes.<sup>3</sup> Historically, the processes to develop each of these plans spanned months or years. Yet the aggressive timeline for development of the initial ISP leaves PSE, the Commission, and interested parties with only about 12 months for this rulemaking, and only about 18 months after that for PSE to prepare and file its first ISP.<sup>4</sup> Given this aggressive timeline, PSE must begin working with advisory groups and the public now on the development of the first ISP, long before this rulemaking is complete. As a result, the primary objective of this rulemaking should be to streamline existing planning and reporting requirements governing each of the legacy plans into a consolidated regulatory process that will inform the first ISP, but allow for needed flexibility in light of the aggressive initial timeline. ISP rules will need to be applied through a lens of best efforts for initial implementation, followed by iteration in future cycles.

The central focus of the rules adopted in this proceeding should focus primarily on the procedural requirements necessary for large combination utilities preparing an ISP rather than imposing additional prescriptive requirements for the initial ISP. This approach will allow all parties to make the most of the time we have, while ensuring a consistent evolution of these plans in subsequent cycles, including through lessons learned, conditions in Commission orders, and other regulatory processes.

## **II. Responses to Notice Questions**

Below PSE responds to the three questions in the Notice. Consistent with PSE's general comments above, the central themes underpinning each of PSE's responses are the need for regulatory flexibility and innovation during initial implementation of the law and maximizing the limited time available by focusing on the needed procedural requirements in order for PSE to prepare its first ISP by January 1, 2027.

- 1. 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**

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<sup>2</sup> See Large Combination Utilities Decarbonization Act, § 3(4) (requiring PSE to file an ISP by January 1, 2027, and on a timeline set by the Commission thereafter. The Large Combination Utilities Decarbonization does provide for a limited extension of this filing deadline, however, commensurate with any rulemaking extension period set by the Commission. See *id.* § 3(2)(a).

<sup>3</sup> To achieve the law's intent, however, the Commission must also consolidate other plans that are required by rule, not statute. Most notably, this includes the natural gas integrated resource plan. See WAC 480-90-238.

<sup>4</sup> These timelines assume the Commission grants PSE's Petition for an Order Extending Filing and Reporting Requirements under RCW 19.405.060 and 19.280.030, an Exemption from the Requirements of WAC 480-90-238(4), 480-100-640(1) and 480-100-655(2), and Requiring the Filing of an Integrated System Plan, which was filed in Dockets UE-240433 and UG-240434 on June 5, 2024 (Petition). If the Petition is not granted, the timelines to develop the first ISP are reduced substantially.

**additional guidance should the Commission consider providing the large combination utility?**

The compliance checklist should include references to the statutory requirements governing each plan that is consolidated into the ISP. The compliance checklist should also incorporate optionality and anticipate the evolution of ISPs over time, as not all plans that *may* be consolidated per Section 3(2) *should* be consolidated into the first ISP or any future ISP. Similarly, lessons learned from the first ISP should inform future ISP development to encourage iteration and refinement. For these reasons, the Commission should adopt a high-level compliance checklist that ensures large combination utilities are complying with statutory requirements, but which maintains flexibility for the adaptive consolidation of planning requirements over time. Any “other guidance” the Commission provides should be consistent with this theme.

- 2. Section 3(2)(a) of ESHB 1589 requires the Commission to complete a rulemaking proceeding to implement consolidated planning requirements for gas and electric services for large combination utilities. The Commission may include existing plans required under seven existing statutes<sup>5</sup> in the consolidated planning requirements. Are there existing plans required under these seven statutes that large combination utilities submit to the Commission that the Commission should consider including and/or excluding from the required rulemaking proceeding? Please explain why these plans should be included or excluded.**

Pursuant to Section 3(2)(a), the Commission may consolidate the plans required under seven existing statutes. Importantly, the language in section 3(2)(a) is permissive in nature and does not *require* either the Commission or a large combination utility to consolidate all plans referenced into the ISP. Indeed, there are good reasons not to require large combination utilities to consolidate at least two of these plans. On the other hand, there are also good reasons to require other plans not governed by these statutes, but required by Commission rules, to be consolidated. Critically, this includes the natural gas IRP.

The Commission should exclude from consolidation at least two of the referenced plans: the multiyear rate plan (RCW 80.28.425) and the pipeline replacement plan (RCW 80.28.130). PSE has no plans to include a multiyear rate plan in the first ISP due January 1, 2027. The multiyear rate plan process is a discrete ratemaking exercise that requires individual attention and thus should stand on its own.

Similarly, although the ISP must evaluate non-pipeline alternatives and assess opportunities for electrification, the pipeline replacement program plan should be excluded from consolidation. PSE files this plan every two years pursuant to the Commission’s policy statement issued in Docket UG-120715 to ensure the accelerated replacement of natural gas pipeline facilities with elevated risk. This plan is focused on the safety of PSE’s pipeline infrastructure

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<sup>5</sup> Plans that the Commission may include in this consolidated planning requirement are: (i) RCW 19.280.030; (ii) RCW 19.285.040; (iii) RCW 19.405.060; (iv) RCW 80.28.380; (v) RCW 80.28.365; (vi) RCW 80.28.425; and (vii) RCW 80.28.130.

and at this time PSE has concerns about the efficacy of consolidating these safety-focused plans into a much broader planning process.

**3. 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?**

The straw proposal developed in Docket UE-210804 may be inadequate to address the central challenge of resource selection under the Large Combination Utilities Decarbonization Act. Traditional cost-effectiveness tests, such as those described in the National Standard Practice Manual, focus on evaluating the costs and benefits of demand-side resources utilizing the concept of avoided costs – the incremental cost a utility must pay to generate or purchase power. The integrated system modeling process then utilizes these values to determine lowest reasonable cost resource selection under current legal and regulatory constraints in a variety of futures. As noted elsewhere, however, decarbonization options, especially for PSE’s gas operations, are comparatively expensive, and in previous IRPs and other studies conducted by PSE, these measures have not been found to be the lowest cost energy resource under these existing cost tests, even taking into account gas savings and state policies for clean energy and emissions reductions.<sup>6</sup>

Modifications to cost-effectiveness tests that rely on avoided costs to determine which demand-side programs are cost-effective – such as the straw proposal – may not adequately address the underlying challenge for integrated system planning as envisioned by the Large Combination Utilities Decarbonization Act. Based on conversations during the legislative session in which the Large Combination Utilities Decarbonization Act was ultimately passed, PSE does not have the impression that the “cost test” referred to in the law was referencing “cost effectiveness tests” for customer programs such as conservation.

Instead, the cost test contemplated by the Large Combination Utilities Decarbonization Act should provide broader clarity regarding a modeling approach or constraint that can be used in the ISP to determine what resources are “lowest reasonable cost” considering the multitude of public policies that provide for other, and sometimes conflicting, objectives to pure economic decision-making. PSE recommends that this rulemaking focus on a comprehensive approach to balancing policy priorities across resource options and across gas and electric utility service, including, but not limited to discussion of how utilities should evaluate situations where customers switch from natural gas to electricity. One possible approach is to consider maximizing emissions reductions up to a specific, enumerated rate impact for customers, but there may be other approaches that help guide decision-making in the ISP between these various

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<sup>6</sup> See Comments of Puget Sound Energy, Docket U-230161 at 5-6 (May 10, 2023); Comments of Puget Sound Energy, Docket U-230161 at 2-3 (Sept. 7, 2023); Comments of Puget Sound Energy, Docket U-230161 at 2-3 (Nov. 3, 2023). See also Puget Sound Energy’s Updated Decarbonization Study, Docket UE-220066 (Dec. 22, 2023).

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policy priorities. In this aspect of the rulemaking, the Commission and interested parties should discuss ways in which utilities can more holistically evaluate opportunities for meeting peak energy needs and achieving emissions reductions in a technology-agnostic manner given the diversity of resource options available.<sup>7</sup>

### **III. Conclusion**

Thank you for the opportunity to submit these comments. PSE looks forward to further discussion of these topics at the Commission's June 28, 2024 workshop.

If you have questions about this filing, please contact Brett Rendina, Regulatory Affairs Initiatives Manager, at 360-294-9558 or [Brett.Rendina@pse.com](mailto:Brett.Rendina@pse.com). If you have any other questions, please contact me at 425-462-3051.

Sincerely,

*/s/ Wendy Gerlitz*

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<sup>7</sup> See Comments of Puget Sound Energy, Docket UE-210804 (Dec. 14, 2021).