January 17, 2019

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RE: **Comments of Renewable Northwest**
Current Regulatory Framework Problem Statement
Docket U-180907—*Washington Utilities and Transportation Commission's December 17, 2018 Notice of Opportunity to File Written Comments as part of Inquiry into the Adequacy of the Current Regulatory Framework Employed by the Commission in Addressing Developing Industry Trends, New Technologies, and Public Policy Affecting the Utility Sector*

Renewable Northwest thanks the Washington Utilities and Transportation Commission ("the UTC" or "the Commission") for this opportunity to file written comments in response to its December 17, 2018, Notice of Opportunity to File Written Comments (the "Notice"). The Commission issued its Notice following its December 10, 2018, workshop as part of its inquiry into the adequacy of traditional rate-base, rate-of-return regulation and the potential use of alternative frameworks. The Notice invites utilities and stakeholders to provide written comments identifying problems statements, principles, and priorities for the UTC's inquiry.

Question 1: Problem Statements and Principles Important to Renewable Northwest

From Renewable Northwest's perspective, the main problem that this process should address is:

> The increasing misalignment between the incentive structure embedded in the traditional electric utility regulatory scheme for Washington investor-owned utilities ("IOUs") and the changed and rapidly changing nature of the electricity sector in the state.

Causes of this misalignment include changes to market structures such that generation is no longer entirely a natural monopoly, as well as changes to public policy to encourage decarbonization of the sector. As the Commission observed in 2017, "[t]hrough a blend of citizen initiatives, legislation, and executive action, Washington has constructed a policy framework intended to diversify the state's energy mix while reducing its impact on the environment".[1] We encourage the Commission to explore changes to the traditional regulatory structure that result in a better alignment of utility incentives with the changed and changing electricity sector and Washington's policy goals.

The existing regulatory system appears to be straining under a changing landscape that includes developing industry trends, new technologies, and emerging climate public policy. The UTC has stated that "[a]s customer demand and resource options change, so do utility needs—becoming more flexible, granular, and locational."[2] These changes are affecting the effectiveness of both utility planning and traditional rate-base, rate-of-return regulation. Changing factors include:

- The region is facing decreasing load growth in traditional sectors, often due to successful conservation and efficiency efforts[3];
- Customers are increasingly wanting a say in the source of their generation (including self-generation and feeding surplus power back into the grid)[4];
- Technological advances are producing options to meet system needs that often have a lower cost/risk profile than traditional solutions[5];
- The regional transmission system is increasingly congested while new high-voltage transmission lines are difficult to site in a timely manner.
- The most recent climate science has created a sense of urgency in decision-makers, advocates, stakeholders, and some utilities to mitigate against and adapt to climate change.

These drivers and trends do not appear to be well aligned with the incentives embedded in Washington's current regulatory system. Realigning those incentives will likely be key to ensuring that Washington IOUs can respond at the lowest reasonable cost to the changed and changing landscape.

The regulatory compact was designed to regulate electric IOUs as a natural monopoly, and that approach was sensible for much of the history of this sector. However, some components of the

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[1] UE–151069 and U–161024 (Consolidated), *Report and Policy Statement on Treatment of Energy Storage Technologies in Integrated Resource Planning and Resource Acquisition at 3* (Oct. 11, 2017).
[2] UE–151069 and U–161024 (Consolidated), *Report and Policy Statement on Treatment of Energy Storage Technologies in Integrated Resource Planning and Resource Acquisition at 5* (Oct. 11, 2017).
[3] Northwest Power and Conservation Council's Seventh Power Plan at 7-3, *available at* https://www.nwcouncil.org/sites/default/files/7thplanfinal_allchapters_1.pdf.
[4] PSE's successful voluntary green power programs for commercial and industrial customers as well as increasing customer interest in rooftop solar and community solar are examples of this trend.
[5] I.e. energy storage systems are increasingly selected to address issues that would have traditionally been addressed by less modular and more expensive solutions like addressing transmission constraints or grid support needs.

sector, such as the market characteristics for generation, no longer function as a natural monopoly, leading to a regulatory system with an incentive structure that is increasingly falling out of step with the industry that it regulates. Indeed, the current incentive structure compensates IOUs for investing capital and then providing a return of and a return on the investment. **We encourage the UTC to explore in this process how it can update its regulatory framework to incentivize IOUs to respond to the changing landscape in the electricity sector and meet Washington's energy and climate policy at the lowest reasonable cost.**

Specifically, we encourage the UTC to explore how to allow Washington IOUs to earn a rate of return while being incentivized to meet state public policy goals. For example, we encourage the UTC to explore how to address potentially insufficient incentives for utilities to facilitate the increasing deployment of diverse, resilient, distributed energy resources (from rooftop solar to solar plus storage, and electric vehicle charging stations). From our perspective, compensating Washington IOUs in supporting deployment and harnessing the full range of benefits of these resource would be an incentive that aligns with Washington policy. Additionally, it may make sense for the UTC to explore incentives for achieving other metrics that align with public policy goals, such as reducing peak demand or moving peak demand in time to reduce reliance on emission-intensive peaking units and align with peak renewable production, or directly compensating utilities for meeting greenhouse gas emission reduction goals.

Question 2: Comments on principles and problem statements that other stakeholders have raised

From our experience engaging with dockets exploring the regulatory structure in other jurisdictions, it is important early in the process to cast a wide net. All of the topics identified by other stakeholders are important to consider. Through continued engagement with the process, certain principles and considerations may begin to emerge as topics of particular interest. In Oregon, for example, aligning utility regulation with state climate policy and increasing equity for utility customers all while retaining affordable, reliable service emerged as areas of focus.[6] The process in Washington will likely produce the principles that are most important to Washington.

Again, Renewable Northwest thanks the Commission for this opportunity to comment. We look forward to continued participation in this important docket as the Commission explores the

[6] *See* Oregon Public Utility Commission, *SB 978: Actively Adapting to the Changing Electricity Sector* (Sept. 2018), *available at* https://www.puc.state.or.us/Renewable%20Energy/SB978LegislativeReport-2018.pdf.

challenges presented by the current regulatory framework and the potential for changes to better align the framework with our evolving electricity sector and policy goals.

Respectfully submitted this seventeenth day of January, 2019.

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