February 28, 2020

Comments of Swan Lake North Hydro, LLC

Docket UE-191023

Relating to Clean Energy Implementation Plans and Compliance with

Clean Energy Transformation Act

I. INTRODUCTION

Swan Lake North, LLC (Swan Lake) is the joint venture that is developing the 1,200 MW closed-loop pumped storage project outside of Goldendale, WA (The Project). The Project submitted the draft license application to the Federal Energy Regulatory Commission and expects to submit the Final License Application by March 12 of this year. The Project has requested that the application be processed under the 2-year expedited licensing process for closed-loop pumped storage. If the licensing process goes as requested, the Project License is expected to be issued in early 2022 with construction completed in 2028.

Swan Lake's comments are directed to the provision in the Clean Energy Transformation Act (CETA) that provides direction in making new investments in meeting the 2030 and 2045 standards established in RCW 19.405.040(1). The direction for acquisition of new resources specifies that, to the maximum extent feasible, only renewable energy and storage resources are to be acquired:[1]

> *In making new investments, an electric utility must, to the maximum extent feasible:*
> *(i) Achieve targets at the lowest reasonable cost, considering risk;*
> *(ii) Consider acquisition of existing renewable resources; and*
> *(iii) In the acquisition of new resources constructed after May 7, 2019, rely on* ***renewable resources and energy storage****, insofar as doing so is consistent with (a)(i) of this subsection.*

Our comments are entered in response to the relevant questions posed by the Commission as they relate to the acquisition and operation of energy storage. As thermal capacity is retired, new clean capacity has to be acquired, valued and deployed.

Storage in this context of CETA should be viewed as the intermediary vehicle for converting variable renewable energy into capacity. That conversion has a cost, both in efficiency loss in storing the energy and regenerating, and an economic cost through the loss of energy in that "round trip" that the energy takes. That cost of conversion of variable energy to capacity and energy should be anticipated, valued and recoverable by utilities, with establishment of investment incentives and prudency guidelines,

[1] RCW 19.405.040(6)

recognizing the value that storage as capacity must play in the transformation to the clean energy future.

We also request and encourage the Commission to invite and convene a stakeholder workgroup to further analyze the planning, valuation, acquisition and operation of storage and the role it will play in providing clean capacity and supporting reliability in this clean energy transition.

COMMENTS

- CEIP targets;
- Public process;
- Demonstration of compliance with RCW 19.405.030, 040, and 050;
- Deferral of major projects under RCW 80.28.410;
- Compliance, enforcement, and penalties;
- Equitable distribution of benefits;
- Incremental cost of compliance; and
- Cost information within the CEIP.

The Commission requests comments on the following questions specific to these topics. The Commission also welcomes comments on other issues related to the subject of this rulemaking that these questions may not address.[4]

A. Clean Energy Implementation Plans (CEIP)

Q1. CETA stresses the need to maintain system reliability and resource adequacy.[5] RCW 19.405.060(1)((a)(iii) requires that the specific actions taken in a CEIP be consistent with the utility's resource adequacy requirements. What information should utilities include about their system reliability and resource adequacy in the CEIP? For example, should the utilities include detailed information about the resource mix it plans to use to meet system reliability and resource adequacy and how each resource type contributes?

To the extent that the CEIP anticipates and plans for acquisition of new resources to meet resource adequacy and system reliability, CETA clearly specifies storage. Given the capacity that storage provides, at the least the CEIP should detail the acquisition of storage. Storage as we understand it today can take the form of pumped storage or battery storage. Those two choice pose distinctly different acquisition strategies and operational characteristics. A second level of analysis for inclusion of storage should include the costs and risks of each type of storage, including cost, useful life, life cycle analysis, including environmental impacts, and safety risks.

B. CEIP Targets

Q2. RCW 19.405.060(1) requires that by January 1, 2022, and every four years thereafter, each electric investor-owned utility must develop and submit to the Commission a four-year CEIP for the standards established under RCW 19.405.040(1) and 19.405.050(1). The plan must propose specific targets for energy efficiency, demand response, and renewable energy. The plan must also propose interim targets for meeting the standard in RCW 19.405.040(1) prior to 2030 and between 2030 and 2045.

[Insert Response]

Q3. Should the rules provide that specific targets must be defined cumulatively for each four year period, or identified annually, within the four year compliance period?

When acquisition of storage is identified as a complement to acquisition of new renewable resources or to meet reliability or adequacy requirements, longer lead times may be necessary for planning, constructing and acquiring that storage resource, certainly for acquisition of pumped storage. To that extent, an annual acquisition target seems unnecessary, and would seem to drive the decision making to smaller, potentially more expensive choices. but support for a utility to plan for the longer horizon necessary.

Q4. Should the Commission require utilities to identify interim targets by resource type or some other metric(s), such as percentage of sales to customers from nonemitting generation and renewable resources?

Q5. Should the Commission require that interim targets be defined cumulatively or annually for the years prior to 2030? For the years between 2030 and 2045?

Acquisition of pumped storage will potentially have a more “lumpy” acquisition look, so whether the targets be defined either way, we ask that the unique characteristics of pumped storage be considered in answering this question.

Q6. RCW 19.405.060(1)(c) requires the Commission to approve, reject, or approve with conditions the CEIP and associated targets after a hearing. With conditional approval, the Commission may recommend or require more stringent targets. Are there circumstances in which the Commission can and should recommend, rather than require, more stringent targets? If so, when should the Commission recommend more stringent targets and on what basis could and should the Commission not require more stringent targets?

The Commission should require more stringent targets, including early acquisition, when those targets are addressing resource adequacy and system reliability. Erring on the side of caution seems prudent in ensuring adequate resources are acquired to meet reliability and adequacy.

Q7. RCW 19.405.060(1)(c) allows the Commission to periodically adjust or expedite timelines when considering a utility's CEIP or interim targets. A common Commission practice is to respond to a motion to adjust timelines from any party with standing in a proceeding at any time or after hearing a compliance item at an open meeting.

i. What criteria should the Commission take into account in making changes to timelines?

As we stated above, the Commission should consider adjusting or moving timelines ahead when needed to ensure sufficient resource adequacy and reliability, including allowing sufficient support for resource acquisitions requiring long lead times.

ii. When should the Commission consider adjusting or expediting the timeline? How should the Commission interpret the term "periodically?"

iii. Who bears the burden of demonstrating that adjusting or expediting the timeline can or cannot be achieved in a manner consistent with RCW 19.405.060(1)(c)(i)-(iv)?

Q8. What level of additional detail, if any, should the specific CEIP targets include beyond the statutory language?

As stated earlier, and at the risk of sounding like the proverbial broken record, the statute does require only renewable energy and storage are to be acquired as new resources to meet the standard – however the statute does not go further in detailing how or when, or how to value and recover costs of storage (capacity), or for how to address ensuring resource adequacy or system reliability. It would seem prudent to include additional detail around these specific targets.

Q9. For energy efficiency, the target required by the Energy Independence Act, RCW 19.285.040(1)(a), follows methods consistent with those of the Pacific Northwest Power and Conservation Council and only considers first year savings. Should the energy efficiency target in the CEIP be based on cumulative savings, savings projected over the lifetimes of measures implemented in a given program year, or capacity savings?

[Insert Response]

Q10. For demand response (DR):

i. How should the Commission develop a cost test to identify cost-effective demand response, as referenced in the Commission's draft rules under WAC 480-100-610(12)(e) (See Integrated Resource Plan Rulemaking, Docket UE-190698, Staff Discussion Draft Rules (Nov. 20, 2019))?

[Insert Response]

ii. Should demand response potential be considered only within a utility's service territory or encompass the utility's entire balancing authority?

[Insert Response]

Q11. For renewable energy:

i. How should the utility calculate its target? Should it be a glide path to 2030, glide path to 2045, or both?

For the storage, adequacy and reliability, and the storage that will be required to complement the addition of new renewable energy, the targets should become apparent, however given the studies that indicate resource adequacy is at risk by 2025, pre-2030 attention should be given towards acquisition of resources sufficient to address the shortfall.

ii. How should the utility consider and account for the Energy Independence Act renewable targets, as referenced in RCW 19.285.040, and nonemitting resources, as referenced in RCW 19.405.040(1)(a)(ii), when calculating the utility's renewable target under CETA?

[Insert Response]

Q12. Should the CEIP contain time ranges for the acquisition of capacity resources, or deadlines for acquisition?

Given the capacity replacement needs that the region will be facing as thermal capacity is retired or discouraged deadlines seem appropriate, with sufficient cost recovery mechanisms in place. As thermal capacity resources retire, sufficient lead time for long-lead time replacement capacity should be acknowledged.

C. Public Process

Q13. What guidance (content and form) should the Commission provide to ensure utilities employ robust, equitable, and inclusive public involvement in drafting CEIPs?

[Insert Response]

Q14. Given the need for utilities to integrate their integrated resource plan (IRP), clean energy action plan (CEAP), and CEIP, what procedural outline should utilities' public involvement follow and what components (e.g., advisory groups, workshops, comment periods, etc.) should be included? How should a CEIP public engagement and public involvement process emulate or differ from the proposed rules in the IRP rulemaking (See Integrated Resource Plan Rulemaking, Docket UE-190698, Staff Discussion Draft Rules at 17 (Nov. 20, 2019)) or the conservation

planning process in WAC 480-109-110 and WAC 480-109-120? Please describe in detail.

[Given the complexity of many of the questions facing the industry in this time of transition to clean energy, it certainly seems advisable to engage stakeholders early and often to begin the conversations that will be necessary to ensure a cost effective and reliable transition.

Q15. Would a requirement for a utility to file a draft CEIP for public input be useful or problematic if the plan were to be litigated? Please explain why or why not.

[Insert Response]

D. Demonstration of Compliance with RCW 19.405.030, 040, and 050.

Q16. The Commission uses a planning and reporting cycle for conservation under the Energy Independence Act described in WAC 480-109-120. Should Commission rules similarly describe the level and frequency of reporting for demonstrating compliance with RCW 19.405.030, 040, and 050?

[Insert Response]

Q17. Regarding the frequency of filings:

i. Should utilities regularly file reports on their progress toward meeting compliance metrics?

[Insert Response—absolutely]

ii. Does or should the frequency of the filings depend on the existence of a rate plan?

[Insert Response--no]

Q18. How must a utility demonstrate to the Commission that the utility has eliminated coal-fired resources from its allocation of electricity beginning in 2026, as required in RCW 19.405.030?

[Insert Response]

Q19. If the Commission has four years of investment information from a utility when approving its CEIP:

i. How often should the Commission require the utility to update the investment plans to reflect changing information?

Annual updates seem appropriate.

ii. May the updates be informational filings, or should they be formal filings subject to Commission approval?

Given the nature and complexity of this transition, and the 4 year window covered by the CEIP, a 2 year update, similar to and in conjunction with the IRP 2 year update, subject to Commission review would seem advisable.

E. Deferral of Major Projects under RCW 80.28.410

Q20. RCW 80.28.410 allows utilities to defer costs incurred in connection with major projects in the CEAP or that are identified in bids for resource acquisition. How should the Commission interpret "major projects" in this context? What metric should the utility use to identify major projects? How should these projects be included in the CEIP?

Certainly long-lead time acquisitions that are identified to address adequacy and reliability should be considered "major" projects.

Q21. RCW 80.28.410 provides for the deferral of both the capital and the variable costs for new resources. Through the power cost adjustment mechanisms (PCAM), utilities recover only the variable power costs of resources. How should costs for new resources be treated in the PCAM in light of the additional deferral allowed under RCW 80.28.410?

If allowed by Commission guidelines and statutes, the PCAM should be reviewed and modifications that would allow a Capacity Cost Adjustment Mechanism in addition to the PCAM.

i. Should the Commission require changes to the utilities' power cost adjustment mechanisms to match the cost of new resources with the benefits in compliance with the statute?

That seems advisable.

ii. During the period of deferral allowed under Chapter RCW 80.28.410(1) for a new energy resource, should the Commission provide deferral within the power cost adjustment mechanism for the difference between the hourly marginal costs of power production (or purchases) used to set the authorized power cost in effect during the deferral and the variable costs of the new energy resource not deferred under RCW 80.28.410(2)? If not, please explain why not? If so, should this change be requested as part of the CEIP, or through a separate proceeding?

[Insert Response]

iii. During the period of deferral allowed under Chapter RCW 80.28.410(1) for a capacity resource, should the Commission provide an adjustment to the deferral within the power cost adjustment mechanism for the lower power costs resulting from the addition of a lower heat rate generation unit to the utility's

portfolio? If not, please explain why not? If so, should this change be requested as part of the CEIP, or through a separate proceeding?

This question seems to assume a thermal capacity resource. Given the requirement under 19.405.060 referenced earlier that new allowed resources are only renewable resources and storage, we hope the Commission includes storage as the new (and desired) capacity resource in its deliberations.

F. Compliance, Enforcement, and Penalties

Q22. RCW 19.405.090 provides that upon its own motion or at the request of the utility, and after a hearing, the Commission may issue an order relieving the utility of its administrative penalty obligation, if certain conditions are met. Does the Commission need to provide more guidance on the application of penalties and waivers of penalties in rule? If yes, please describe what additional guidance should the Commission provide.

[Insert Response]

G. Equitable Distribution of Benefits

Q23. RCW 19.405.040(8) states:

In complying with this section, an electric utility must, consistent with the requirements of RCW 19.280.030 and 19.405.140, ensure that all customers are benefiting from the transition to clean energy: Through the equitable distribution of energy and nonenergy benefits and reduction of burdens to vulnerable populations and highly impacted communities; long-term and short-term public health and environmental benefits and reduction of costs and risks; and energy security and resiliency.

i. Please provide a list of costs and benefits (e.g., public health, pollution) that the Commission should consider when determining a utility's compliance with RCW 19.405.040(8).

[Insert Response]

ii. Please provide a list of which geographic areas, populations, customer demographics, or other factors the Commission should consider when determining a utility's compliance with RCW 19.405.040(8).

[Insert Response]

Q24. In the Commission's IRP rulemaking in Docket UE-190698, many stakeholders commented that the Commission should determine compliance with RCW 19.405.040(8) as part of the CEIP process. If the Commission were to do so, what types of guidance on RCW

19.405.040(8) compliance should the Commission provide in its CEIP rules? If the Commission were to provide guidance on RCW 19.405.040(8) compliance in a form other than rules (e.g., an interpretive and policy statement), what type of guidance should the Commission provide ? Please be as specific as possible in your responses.

[Insert Response]

Q25. Should a utility's demonstration of compliance with the requirements in RCW 19.405.040(8) include qualitative data, quantitative data, or both? Please explain your response. If you recommend qualitative data, which of the following approaches for approximating hard-to-quantify impacts are most appropriate: (a) service territory-specific studies; (b) studies from other service territories; (c) proxies; (d) alternative thresholds; or (e) or another approach? Does your response depend on a particular factual scenario? If so, please describe the scenario and explain why the approach you recommend is best suited for that scenario.

[Insert Response]

Q26. Please provide any existing data sources or methodologies of which you are aware for quantifying non-energy costs and benefits, and other equity-related impacts.

[Insert Response]

Q27. How should the Commission interpret RCW 19.405.060(1)(c)(iii)? How are the requirements in that statute different than the requirements in RCW 19.405.040(8)?

[Insert Response]

H. Incremental Cost of Compliance

Q28. RCW 19.405.060(3) requires an electric investor-owned utility to use its weather-adjusted sales revenue to customers as reported in its most recent Commission basis report (CBR) as part of its incremental cost calculation. Each investor-owned utility is different in how it reports its weather-adjusted sales revenues and adjusts its sales for "weather."

i. Should the Commission standardize its CBR rules to be able to effectively implement the incremental cost calculation requirements in RCW 19.405.060(3)? If so, please describe how the Commission should revise those rules.

[Insert Response]

ii. Can the Commission allow each utility to use a different weather normalization method and still create a consistent methodology for calculating incremental cost?

[Insert Response]

Q29. RCW 19.405.060(3)(a) states that an electric investor-owned utility complies with its Clean Energy Implementation Plan if, over a four-year compliance period, the utility's average incremental cost to comply with RCW 19.405.040 and 19.405.050 increases by two percent over the utility's weather-adjusted sales revenue.

i. If a utility relies on the incremental cost compliance option as detailed in RCW 19.405.060(3)(a), when should the Commission determine whether the utility has achieved the incremental cost threshold for compliance? For example, should the Commission determine the utility's compliance based on a forecast, at the time the utility files its Clean Energy Implementation Plan, based on actual data at the conclusion of the four-year period or through interim reporting, or a combination of these options?

[Insert Response]

ii. If the Commission allows a utility to forecast its reliance on the incremental cost of compliance option, and the utility's actual incremental costs increase more or less than two percent averaged over the four-year period, would a true-up mechanism be allowed and necessary to reconcile the differences between the actual and the forecasted incremental cost?

[Insert Response]

Q30. When using the incremental cost compliance option, RCW 19.405.060(3)(a) requires all of a utility's costs to be directly attributable to the actions necessary to comply with RCW 19.405.040 and RCW 19.405.050. How should the Commission require a utility to demonstrate that such actions were "directly attributed and necessary" for the utility to take only to comply with CETA?

[Insert Response]

Q31. RCW 19.405.060(3)(b) states that if a utility relies on subsection (a) (incremental cost as a basis of compliance), the utility must demonstrate that it has "maximized investments in renewable resources and nonemitting electric generation prior to using alternative compliance options." In what type of proceeding should the Commission require a utility to demonstrate that it has maximized investments in renewable resources and nonemitting electric generation? What documentation should the Commission require the utility to provide?

[Insert Response]

I. Cost Information Within the CEIP

Conservation plans include an element describing program budgets and cost recovery approaches for different resources. (See WAC 480-109-120 and 130.) As an example, a utility must recover transmission and distribution investments through a general rate case, while the utility may recover program costs through a conservation tariff rider. Further, changes to RCW 80.04.250 allow the Commission to provide for rate changes up to 48-months after the initial rate effective date. Finally, the Commission must approve a utility's CEIP, in the context of which the Commission may approve new cost-recovery approaches.

Q32. How should the utility address investment planning and cost recovery in its CEIP?

[Insert Response]

Q33. How could a utility's CEIP be used to set rates prospectively? Would using a CEIP to set rates prospectively be in the public interest? Please explain your answer.

[Insert Response]

Q34. Which elements of a CEIP should a utility recover through general rate cases? Which elements of a CEIP are appropriate for a cost recovery mechanism?

[Insert Response]

Q35. Should the Commission require a utility to provide in its CEIP (a) information on program budgets related to incremental programs for compliance with CETA; (b) descriptions of, and details about, capital budgeting for all investment; or (c) both?

[Insert Response]

II. CONCLUSION

[*Insert General Conclusion*]

Respectfully Submitted

S/

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