January 17, 2019

Mr. Mark Johnson
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive
Olympia, WA 98504-7250

Re: Comments of Climate Solutions on Docket UE-180907, 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.

Dear Mr. Mark Johnson,

Climate Solutions appreciates the opportunity to provide comments on UE-180907, 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. Climate Solutions is a clean energy nonprofit organization working to accelerate clean energy solutions to the climate crisis. The Northwest has emerged as a center of climate action, and Climate Solutions is at the center of the movement as a catalyst, advocate, and campaign hub. For 20 years, we have cultivated political leadership in the Northwest under the proposition that clean energy and broadly-shared economic prosperity go hand-in-hand, building a powerful constituency for local and state action on climate and clean energy.

As technologies and customer preferences shift, utility loads decline, and climate change increasingly poses threats to Washington customers and infrastructure, it is critical that the regulatory structure adapt to a changing landscape. We appreciate the Commission's leadership in exploring new regulatory frameworks that will better align with the public interest. In response to the December 10th 2018 workshop, Climate Solutions appreciates the opportunity to provide the following written comments identifying problem statements, principles, and priorities for this inquiry.

I. Problem Statement

Since the development of the regulatory framework in Washington, technological advancement has resulted in significant changes to the grid. As the grid and the role of utilities continue to

evolve, Climate Solutions believes following problems exist and should addressed in an evolved regulatory structure:

- **Misaligned incentives:** In the current regulatory structure, utilities are incentivized to make large capital investments in order to keep the utility financially healthy. This does not always align with the public interest, reflected both in increased costs built into electricity rates, as well as long-term, costly commitments to resources that lock in environmental and climate harms. It also creates a significant preference for owned infrastructure, reducing market access for innovative and beneficial energy development that would reduce costs and pollution, and yield other public interest benefits.

- **Failure to incorporate social costs and benefits**: Historically, utilities primarily calculate the value of a resource based on the economic costs and benefits. Social costs -- such as costs associated with air pollution, climate pollution, and disparate cost burdens on low-income and vulnerable communities – are born by utility customers as a result of utility investments and operations. Not incorporating these costs into the value calculation of a resource can lead to investments that are not public interest.

- **Failure to incorporate long-term costs, benefits, and risks**: Resource costs and benefits are primarily calculated on short-term capital costs and benefits, but fail to adequately incorporate long-term costs, benefits, and risks. Long-term costs, benefits, or risks are often overlooked in the current regulatory structure and can add significant costs in future years, for which future customers will bear the burden.

- **Inadequate consideration of shifts in customer preferences**: As climate change causes increasing threats to our communities, customers' preferences for clean energy have grown substantially. Customers have previously been limited in choices for energy, but as technologies advance, there are new opportunities for customers to generate their own electricity. This puts utilities – and their customers – at risk if they do adapt to changing needs.

- **Declining loads:** Rapid advancement of conservation measures have lowered demand, resulting in declining loads and threatening the financial health of the utility.

- **Transforming role of electricity:** Electric utilities have traditionally supplied energy used for heating, lighting, and industrial uses. While these will likely remain a central source of demand for electricity, an evolving energy landscape will see electricity increasingly used as the source of energy for new sectors, such as the transportation sector. Traditional rate-making and regulatory approaches will need to adapt to these new uses due to their differing barriers to entry, demand patterns, and customer needs, and how all of these change as markets grow and expand.

II. Principles

In response to the problems identified above, Climate Solutions recommends adhering to the following principles for the Commission to consider in exploring alternatives to the current regulatory framework:

- **Alignment of utility incentives and the public interest:** Instead of basing financial incentives on capital investments, financial incentives should be structured to align with shifts in consumer preferences, achieving statewide and local policy objectives, and protecting customers from the social costs of utility activities.

- **Consideration of social benefits, costs, and risks**: Benefits, costs, and risks should be viewed broadly through the eyes of the customer and should incorporate social costs, benefits, and risks, such as the cost of pollution, the risk of climate change, and other social harms disparately born by customers.

- **Achievement of state greenhouse gas goals**: Regulatory frameworks should align with state commitments to greenhouse gas emissions reductions, and align with achieving the goals of state energy policy.

- **Stimulate innovation**: Innovation is a critical component of a changing utility landscape. In order to protect customers, achieve state and local policies objectives, and protect the climate, utility rates should incentivize innovative technologies and programs.

- **Incorporation of customer preferences**: Rates are intended to be designed in the public interest. As customer preferences shift over time, utilities must be responsive of customers' preferences and needs for energy and services.

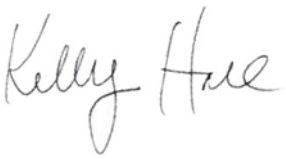
- **Equitable distribution of costs and benefits**: Costs and benefits are often not distributed evenly, and utilities should aim to achieve an equitable distribution of costs and benefits among customers, especially among low-income and vulnerable customers. Those communities most impacted should be involved in the development of programs and practices to achieve these goals.

- **Energy affordability**: Energy is a necessary service, and maintaining affordable bills should be an important component of the regulatory structure. Low-income households spend a larger share of their income on energy, so it is especially important that energy remain affordable for low-income and vulnerable households. New, progressive rate structures may be necessary to achieve more equitable bills.

- **Maintain system reliability:** Customers should have confidence that the utility will maintain a reliable system and provide largely uninterrupted power. Consideration of system reliability should include external influences, such as the risk climate change poses on existing and future infrastructure.

Climate Solutions thanks the Commission for the opportunity to provide comments on this important issue. We believe the utility is at the foundation of protecting customers against the threats of climate change, and should be incentivized to make investments that align with the public interest. We look forward to working with the Commission and stakeholders as this process moves forward.

Sincerely,



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