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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)- Cost Test**

Dear Director Killip,

Puget Sound Energy (PSE) submits these comments in response to the Washington Utilities and Transportation Commission's (Commission) September 27, 2024 Notice of Opportunity to File Written Comments (Notice) in this docket. In the Notice, the Commission invites comments on the implementation of Engrossed Substitute House Bill 1589, Chapter 351, Laws of 2024 (Washington State Decarbonization Act for Large Combination Utilities) specifically pertaining to subsection RCW 80.86.020(10) which directs the Commission to adopt by rule a cost test.

The cost test required by the Washington State Decarbonization Act for Large Combination Utilities should provide a framework that helps to guide Integrated System Plan (ISP) decision-making regarding the cost, scale and pace of decarbonization across a large combination utility's electric and natural gas systems. PSE recommends that this rulemaking focus on 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.

PSE already utilizes several different measure level cost-effectiveness tests in its planning processes. These cost-effectiveness tests serve specific functions and evaluation purposes. PSE recommends that any attempts to define a "one size fits all" cost test should be avoided and this rulemaking should focus on a portfolio level cost test framework that helps achieve the objectives outlined above.

**Responses to Notice Questions**

- 1. Please refer to Staff's straw proposal posted in Docket UE-210804 on November 7, 2022.**

**a. Which elements of the straw proposal are appropriate for use in the cost test as required in RCW 80.86?**

PSE cannot answer this question without more clarity around the structure and function of the cost test being developed. However, PSE's previously submitted comments in this docket may be worth repeating here:

*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 reduction.<sup>1</sup>*

**2. RCW 80.86.020(10) states that the cost test should be applied to “emission reduction measures.”**

**a. Which utility resources qualify as emission reduction measures? Given the breadth of the integrated system planning (ISP) planning requirements in RCW 80.86, and the fact that most utility resources either emit emissions or reduce emissions, are there any utility resources that do not qualify as emission reduction resources?**

An emission reduction measure should be any resource(s) or measure that reduces emissions.

**3. RCW 80.86.020(10) states that 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.”**

**a. Given the breadth of the ISP planning requirements in RCW 80.86, should the cost test apply to measures and resources that are not decarbonization or electrification measures?**

Potentially, depending upon the design and structure of the cost test. For example, there may be infrastructure requirements associated with emission reduction measures that do not

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<sup>1</sup> See Comments of Puget Sound Energy, Docket U-240281 (June 26, 2024).

directly reduce emissions, but are required for an emission reduction measure or set of measures or resources. It seems consistent with the legislative intent that these utility investments would be part of the calculation of determining the lowest reasonable cost portfolio.

**4. RCW 80.86.020(10) states that the “cost test must be used... for the purpose of determining the lowest reasonable cost... at the portfolio level.”**

**a. Does this imply that the cost test should not be applied at a more detailed level than portfolio level?**

That is consistent with the way that PSE has been conceiving of the cost test.

**b. If so, should there be any standard for assessing costs and benefits of utility resources or measures in more detail than the portfolio level?**

There are already standards and practices for assessing many costs and benefits of utility resources and measures. Additionally, this topic is the subject of Docket UE-210804 and should be deliberated in that Docket so that any rules or guidance determined there can apply more broadly at the Commission.

**c. If so, what should that standard be?**

**d. If so, at what level should that standard be applied?**

**5. RCW 80.86.020 requires the ISP to identify or implement cost-effective resources in several ways, including achieving all cost-effective electrification of end uses, identifying the utility’s 10-year cost-effectiveness conservation potential, and identifying the potential cost-effective demand and load response programs. Further, cost-effective is defined as “a project or resources that 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...”**

**a. How does the requirement to identify or implement cost-effective resources affect or overlap with the cost test?**

PSE currently uses a variety of different methodologies to determine measure-level “cost-effectiveness.” Because the statute specifically references that the cost test must be used for the purpose of determining the lowest reasonable cost of decarbonization and electrification measures in the integrated system plan at the “portfolio level” PSE has not been thinking about the cost test as a replacement for any current methodologies as they pertain to individual measure level cost-effectiveness such as conservation.

**6. The draft ISP rules include a requirement that the ISP “must include an analysis and summary of the long-term avoided cost estimate for energy, capacity, transmission, distribution, and greenhouse gas emissions costs.”**

**a. Should these avoided costs be applied in the cost test? If so, how?**

The draft ISP rules are not final and should not be used as a basis for determining or influencing the cost test at this time. Whether avoided costs should be used or applied in the cost test depends upon the structure and function of the cost test. As provided in previous comments to this docket<sup>2</sup>, cost-effectiveness approaches that rely on avoided costs to determine which demand-side programs are cost-effective are already used in PSE’s planning processes, and additions or modifications to these approaches may not adequately address the underlying challenge for integrated system planning as envisioned by the Washington State Decarbonization Act for Large Combination Utilities.

**b. Should these avoided costs be applied in determining whether a project, program, or resource is cost-effective? If so, how?**

As expressed above, PSE questions whether this cost test should apply to individual projects, programs or resources.

Thank you for the opportunity to submit these comments. PSE looks forward to further discussion of these topics.

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

Sincerely,

*/s/ Wendy Gerlitz*

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<sup>2</sup> See Comments of Puget Sound Energy, Docket U-240281 (June 26, 2024).