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

Re: **Docket U-240281** - Rulemaking required to implement ESHB 1589 –
First Technical Workshop

Dear Executive Director Killip:

The Alliance of Western Energy Consumers (“AWEC”) appreciates the additional time and opportunity to submit comments on the First Technical Workshop in Docket U-240281 and to respond to the questions raised in the Commission’s September 27th Notice of Opportunity to File Written Comments (“Notice to Comment”). Representatives for AWEC participated in the workshop and appreciate the robust discussion and the information and perspectives provided by consultants retained by Commission Staff to frame discussions for the cost test required by ESHB 1589 (Chapter 351, Laws of 2024), codified in RCW 80.86.020(10). AWEC responds as follows to the questions raised in the Notice to Comment.

As an initial matter, AWEC finds it imperative that there be a shared understanding of how the cost test in RCW 80.86.020(10) is intended to function. Based on the discussion during the Technical Workshop, AWEC is concerned that there are differing understandings or views about what the cost test is and how it is intended to function. Staff’s consultants appear to have assumed that the ESHB 1589 cost test must take the form of a cost-benefit test and explicitly dismisses the possibility of considering rate impacts as part of the cost test. However, given the Commission’s primary function of ensuring fair, just, and reasonable rates, it is appropriate for the cost test to include strong customer protections.

Additional discussion on this point is warranted. However, in an effort to be responsive to the questions asked by the Commission and the discussion at the Technical Workshop, AWEC offers these preliminary comments setting forth its position at this time. However, AWEC will review comments from other parties and continue to engage in the Technical Workshop process which may lead to refinement of its position in the future.

AWEC’s preliminary cost test proposal includes two components: a customer cost test and a planning cost test. The most important cost test is the customer cost test, because ESHB 1589 does not explicitly include customer protections to guard against substantial cost increases. AWEC recommends designing a cost test that prevents gas or electric rates from increasing excessively beyond a base case scenario. What constitutes excessive should be discussed in a future stakeholder process. This cap will ensure that customers do not experience unfair cost burdens and will moderate cross subsidization between gas and electric service. The customer cost test limits the average customer cost per therm or kWh increase associated with joint gas and electric planning relative to a baseline customer cost.

These customer cost tests will ensure that rate impacts are appropriately balanced with the speed of decarbonization efforts. Notably, ESHB 1589 does not have an overall cost cap such as the cost cap contained in Washington’s Clean Energy Transformation Act (“CETA”) via RCW 19.405.060(3)(a), but importantly, ESHB 1589 does not supersede CETA’s cost protections. Rather, the cost test is part of an overall plan that the Commission must conclude “results in a reasonable cost to customers...” prior to approval. A cost test that keeps rate impacts at the forefront and consistent with other statutory requirements is imperative.

The second component of AWEC’s cost test is to apply standard integrated resource planning tools to a combined gas and electric integrated resource plan. Under this test, the utility will develop a comprehensive set of portfolios to evaluate the lowest reasonable cost method of achieving both gas and electric system needs, including decarbonization needs. AWEC recommends that portfolio development include a base case portfolio where there is no transfer of carbon responsibility between gas and electric service, as well as other constraints and inputs that are designed to establish a base cost for use in the customer cost test. In addition to the base case portfolio, AWEC recommends jointly optimized portfolios be developed using 1) a utility cost perspective, 2) a total resource cost perspective, and 3) a Washington societal cost perspective, and 4) a national societal cost perspective. Under each scenario, the utility should provide standard IRP analysis, as well as measures of impacts discussed in ESHB 1589 Sec. 3(12). A broad set of portfolios optimized over a range of cost considerations will allow the Commission to appropriately balance the interests and objectives of customers and stakeholders.

Defining the Cost Test

Directly related to the issues and questions raised during the Technical Workshop, AWEC finds that the appropriate interpretation of cost test can be understood from its contextual use in ESHB 1589. The cost test is introduced as part of Section 3, which establishes a process for consolidating electric and gas planning processes. The cost test is to 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, at the portfolio level...”¹

The lowest reasonable cost is a defined term in ESHB 1589. “Lowest reasonable cost” means the lowest cost mix of demand-side and supply-side resources and decarbonization

¹ RCW 80.86.020(10).

measures determined through a detailed and consistent analysis of a wide range of commercially available resources and measures.” Lowest reasonable cost is not in and of itself a cost, but a mix of resources and measures. When this definition is considered within the context of the cost test, it is clear that the cost test is to be used for the purpose of determining the lowest cost mix of demand and supply side resources in an integrated system plan. Given this context, AWEC understands the cost test to be a method of quantifying costs and benefits for the purpose of developing and evaluating portfolios, and as a constraint on potential cost shifts between gas and electric customers.

The Cost Test Should Inform Commission Decisions

AWEC also observes that the cost test is to be used by the utility in identifying low cost portfolios as part of an integrated system plan,² while ESHB 1589 outlines a distinctly different framework to be used by the Commission to approve said plan.³ While ESHB 1589 provides no specific guidance on the cost test, it does outline 14 specific considerations that the Commission must evaluate when approving a plan, including considerations of costs, risks, and benefits.⁴ These considerations have competing impacts on selection of a lowest reasonable cost mix of resources. For example, placing greater weight on environmental benefits may result in lower weight being placed on customer cost impacts.

The Commission has an existing process for evaluating separate gas and electric system plans. This process has successfully navigated the challenges of balancing competing considerations, such as costs and benefits. Under the existing process, utilities have substantial flexibility in developing system plans, and stakeholders have substantial opportunity to influence the planning process and the Commission’s findings. Rules implementing the cost test in ESHB 1589 should enhance, rather than constrain, the existing planning process. The ESHB 1589 cost test should be used to balance electric and gas cost considerations. Given that cost tests already exist for gas and electric systems in the form of lowest reasonable cost planning requirements, the ESHB 1589 cost test should be focused on combining these independent tests into a unified gas and electric planning process rather than developing a new cost test to replace the existing tools.

AWEC is concerned that the First Technical Workshop focused on parameterizing a cost benefit test rather than exploring how to unify gas and electric cost considerations on a portfolio basis. For example, slide 39 of the workshop presentation identified 13 utility and non-utility impacts, asserting that all impacts should be considered in the cost test and eliciting feedback from stakeholders. This approach to developing a cost test will not be successful because it is overly prescriptive, it impinges on the existing planning framework, and it does not address the key task in front of the Commission, which is unifying the planning of gas and electric systems which already have existing and superseding requirements.

² ESHB 1589 Section 3(10).

³ ESHB 1589 Section 3(12).

⁴ ESHB 1589 Section 3(12).

Embedding social considerations within the cost test will hamper the Commission when faced with competing customer and stakeholder objectives, such as health considerations and cost considerations. AWEC recommends that the planning cost test be constructed to allow for different portfolios that minimize different sets of objectives. This non-prescriptive approach to cost testing will maintain the Commission's flexibility in evaluating and approving utility plans.

- 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 by RCW 80.86.**

As noted above, AWEC disagrees that a cost-benefit type analysis, which is at the heart of the straw proposal, is an appropriate starting point for the cost test, at least at this time without more clarity on the cost test and in particular what it is and how the Commission intends to apply it. A rule that includes a prescriptive cost-benefit test with explicit inputs, methods, and models will stymie the stakeholder process, constrain PSE's ability to identify the lowest reasonable cost portfolio, and hamper the Commission's application of judgement under dynamic needs and expectations.

AWEC views the cost test required by RCW 80.86.020(10) to apply to a portfolio level analysis, as opposed to individual emission reduction measures, but also optimizes around rate impacts to customers. In other words, a test of reasonableness would be whether the portfolio results in a reasonable rate impact to customers. This type of analysis is not new – it has been the basis for Integrated Resource Plans all along and the Commission is well versed in this type of analysis. This should serve as the baseline for a cost test. The Commission could then consider sensitivities to understand the impacts (including costs) of portfolio options that emphasize one, some, or all of the societal impacts identified in the straw proposal.

Under AWEC's recommendation, a base case portfolio would be developed to establish baseline customer bills. In addition, the utility would develop a set of portfolios designed to minimize different sets of costs, including scenarios for 1) utility costs, 2) total resource costs, 3) Washington societal costs, and 4) national societal costs. The performance of each proposal, and the degree to which the proposal addresses the considerations in ESHB 1589 Sec. 3(12) will be reported in the plan, and the utility will propose a plan that fairly balances these considerations.

The utility's plan will be required to meet the customer cost test that limits gas and electric rate increases relative to the base case scenario.

- 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?

AWEC is concerned that interpreting this phrase in isolation from the overall sentence again misses the mark in that the cost test should apply to an emissions reduction *portfolio*, and not individual emissions reduction measures. For individual emissions reduction measures, ESHB 1589 set forth specific requirements for cost-effectiveness in certain circumstances, such as electrification, demand response and conservation. However, these individual standards should serve to inform which measures are considered in a portfolio of options. And it is that portfolio of options that would be subject to the Commission's cost test. As such, Staff's straw proposal provides some value for how to consider what should be included in an overall cost test but appears to be more focused on a cost-benefit analysis of individual measures, as opposed to evaluating costs on a portfolio basis. Moreover, the utility and stakeholders should not be constrained to considering specific resources.

- 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?**

As previously noted, AWEC views the cost test as a check on costs for the portfolio of options that a utility needs to meet the requirements of ESHB 1589, but importantly, does not supersede other applicable cost standards, such as CETA's cost test. Nor should it be interpreted to supersede the Commission's authority to set fair, just, reasonable and sufficient rates. AWEC's recommended customer cost test is applied separately to all gas utility costs and all electric utility costs. AWEC's recommended planning cost test is applied to all resources considered in the planning process, regardless of whether the resources are decarbonization or electrification measures.

- 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?**

The planning cost test should not be applied at a more detailed level than the portfolio level. The customer cost test should be applied at the customer level. However, to be clear, other cost standards should be applied in the development of the lowest reasonable cost portfolio. Please see responses above.

- 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?**

Yes. As described above, standards for some measures, such as electrification, demand response and conservation, were already provided by the legislature – such measures are limited to those that are cost-effective.

c. If so, what should that standard be?

The Commission should abide by the standards mandated by the Legislature when the Legislature has been clear about the standard that should apply. Again, for electrification, demand response and conservation, the Legislature has indicated that a cost-effectiveness standard applies.

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

PSE should apply cost-effectiveness and other measure-specific standards when it is considering which emissions reduction measures to include in its portfolio of options for consideration. The Commission need not be more prescriptive via rule.

- 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?

There is no direct overlap between cost-effective resources and the cost test. Any emissions reduction measures included in the portfolio of options should be limited to those resources and measures that are cost-effective. The purpose of the cost test is to “determine the lowest reasonable cost of decarbonization and electrification measures in integrated system plans, *at the portfolio level...*” AWEC recognizes that the Commission may use the cost test “for any other purpose determined by the commission by rule,”⁵ but the Commission should refrain from adopting an additional purpose of the cost test, at least at this time.

- 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?

No, avoided costs should not be applied in the cost test. The cost test identifies the lowest reasonable cost for a mix of resources. Avoided costs cannot be measured until a mix of

⁵ ESHB 1589 Section 3(10).

resources is selected as lowest cost. To illustrate this point, avoided capacity cost in a scenario where all capacity is met through the use of batteries will be different from the avoided capacity cost in a scenario where all capacity is met through the use of market purchases. The avoided costs are evaluated based on this mix of resources, and thus are a result of the cost test. Because avoided costs are a result of the cost test, they cannot be applied within the cost test.

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

This question is not clear on the context for or definition of cost-effective, and so AWEC does not have enough information at this time to answer this question. Generally, however, AWEC finds that avoided costs are appropriately considered in a subsequent prudence review when the utility has incurred an expense associated with resource procurement rather than in the context of the cost test rules.

Dated this 18th day of October 2024.

Respectfully submitted,

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