U-240281

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Jeff Killip
Executive Director and Secretary
Washington Utilities and Transportation Commission 621 Woodland Sq. Loop SE Lacey, Washington 98503

Re: U-240281, Renewable Northwest and Climate Solutions' Third Set of Comments on the Rulemaking required to implement ESHB 1589

Dear Jeff Killip,

On September 27, 2024, the Washington Utilities and Transportation Commission (UTC or Commission) issued a Notice of Opportunity to File Written Comments on a cost test for emissions reduction measures achieved by large combination utilities to comply with state clean energy and climate policies. The Commission also announced Notice of Technical Conferences on October 11, October 29, and December 3, 2024. In its Notice of Opportunity to File Written Comments, the Commission asked six questions to better inform its discussion at the workshop on October 11.

Renewable Northwest and Climate Solutions appreciate the opportunity to file the responses to the Commission's questions. Renewable Northwest is a non-profit advocacy organization that works to decarbonize the region by accelerating the transition to renewable electricity. Renewable Northwest has approximately 90 member organizations that include renewable energy developers and manufacturers, as well as consumer advocates, environmental groups, and other industry advisers. The common goal of Renewable Northwest's members is for every home, business, and vehicle in the Northwest to be powered by renewable, affordable, carbon-free electricity. Climate Solutions is a Northwest-based clean energy nonprofit advocacy organization with the mission of accelerating 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.

Below, we answer the questions posed by the Commission in its Notice of Opportunity to Comment to the best of our ability. Unfortunately, we were not able to answer several of the questions fully because we do not yet have a sufficient understanding of the structure of the cost test, nor how emissions reduction measures are

defined. We encourage the Commission to release a more fully developed cost test prior to the next workshop. Although the draft cost test may be imperfect, we believe that having a more detailed emissions reduction measure cost test straw proposal for comment and reaction will help the Commission move forward more efficiently.

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?**

The Straw Proposal initiates its guidance on the development of a cost test through a five-step process, although the proposal only covers the first three steps. The five steps are as follows:

- Step 1. Articulate Applicable Policy Goals
- Step 2. Include All Utility System Impacts
- Step 3. Decide Which Non-Utility System Impacts to Include
- Step 4. Ensure that Benefits and Costs are Properly Addressed
- Step 5. Establish Comprehensive, Transparent Documentation

The Straw proposal further clarifies that each step in the process is guided by eight principles.[1]

There are elements of the Straw Proposal that we support in the development of a cost test for emissions reduction measures (ERMs). First, the Straw Proposal takes a holistic view of both the energy and nonenergy impacts to the energy system and customers. A holistic assessment of energy and nonenergy impacts is consistent with the Commission's practice when considering energy efficiency cost-effectiveness, and it is appropriate here as well. Second, we appreciate that the Straw Proposal emphasizes the need for transparent documentation of the costs, benefits, and methodology for the calculation. Finally, we generally agree with the direction of the identified principles; however, we note that they will need to be modified to better reflect the differences between distributed energy resources (DERs) and ERMs. For instance, it is not clear that there is a principle 1 analogy for ERMs as some ERMs, depending on how the Commission

[1] Principle 1: Treat DERs as a Utility System Resource, Principle 2: Align with Policy Goals, Principle 3: Ensure Symmetrical treatment of benefits and costs, Principle 4: Account for Relevant, Material Impacts, Principle 5: Conduct Forward-Looking, Long-term, Incremental Analyses, Principle 6: Avoid Double-Counting Impacts, Principle 7: Ensure Transparency, Principle 8: Conduct BCAs Separately from Rate Impact Analyses

defines an ERM, may not be considered a utility system resource. We include suggestions for defining ERMs in our answer to question 2.

However, there are some critical differences between DERs and ERMs and the cost test for ERMs should reflect those. To determine the cost effectiveness of DERs, the Commission and the utility consider if the benefits of a project, or a portfolio of projects, exceed the costs. This is analogous to the Commission's consideration of energy efficiency. If DERs or energy efficiency are cost effective – that is the benefits exceed the costs - then the utility should procure the project or portfolio of projects. DER benefits can include avoided energy, capacity, and emissions costs, as well as avoided nonenergy costs. If the benefits do not exceed the costs, then, unless otherwise instructed, the utility should not procure the project or portfolio of DERs. In other words, a cost test helps the utility and Commission determine which projects are cost-effective and should be pursued to meet customer demand. Under this definition, each project, portfolio, or measure could be evaluated on its own (usually against supply side resources) to determine whether it passes the cost effectiveness test or not.

ERMs are differently situated than DERs. The legislature directed the Commission to adopt by rule a cost test for ERMs achieved by large combination utilities *to comply with state clean energy and climate policies*.[2] The state has passed several laws, including the Clean Energy Transformation Act (CETA) and the Climate Commitment Act (CCA), to reduce utility and the state's emissions. Large combination utilities are required to comply with those laws, and ERMs are likely to be a significant component of that compliance pathway. It is feasible that not all measures, actions, or investments necessary for compliance with CETA or the CCA would have monetary benefits exceeding monetary costs absent the cost of compliance. Thus, the definition of cost effectiveness has been adjusted to reflect this, focusing on the estimated long-term incremental system cost being no greater than *that of the least-cost similarly reliable and available alternative project or resource*, or any combination thereof, *including the cost of compliance with chapter 70A.65 RCW, based on the forward allowance ceiling price of allowances approved by the department of ecology* (RCW 80.86.010(5)(b)). This is in contrast to previous definitions of cost effective where the incremental cost had to be lower than the benefits.

In this sense, measures, actions, and investments made to comply with state law are more akin to the need for a new investment made to ensure reliability of the system. The utility should choose the option that minimizes costs and risks without the expectation that the monetary benefits exceed the costs, absent a compliance requirement. In this case, each of the measures cannot be examined in isolation given there is no threshold value

[2] Emphasis added.

(Benefits/costs>1) that would determine the outcome. Instead, measures will pass the test if they are deemed to reduce emissions more cost-effectively than others, indicating the need for a cost curve. Under a broader definition, benefits could include the avoided costs of the least cost similarly reliable and available alternative project. However, this presents the challenge of an ever-changing baseline against which resources are measured.

Based on our current thinking this could be helped through the construction of a cost curve that allows measures to be compared on a dollar-per-ton reduced basis or the definition of the baseline against which the measure will be compared. The utility and Commission could use this cost curve, along with other considerations including equity and nonquantifiable costs, benefits, and risks, to develop a portfolio. A question of interest is how to structure a cost test that serves the intended purpose, is practical, replicable, transparent and relatively easy to update. Additional direction on the benefits, the categories and quantification methods, as well as definitions of emissions reduction measure and alternative resource (as used in the definition of cost effective) are needed in order to start structuring a cost test.

Finally, it is not clear the extent – if any – to which the cost test considers non-quantifiable impacts and equity in the decision-making process. We discuss this more in our answers to question 4.

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?**

We recommend four considerations for the Commission as it develops a definition for emission reduction measures. First, the Commission's definition should include requirements that the "measure" results in direct emissions reductions over the life of the measure.

Second, the definition should require that the use of the measure for compliance with CCA is durable. That is, the benefits of the measure last for a period longer than at least 1 year. Additionally, emissions reductions measures should be consistent with a plan that achieves compliance with clean energy laws in both the short-term and long-term. Measures that reduce greenhouse gas emissions in the short-term, but would

prevent the utility from meeting the requirements of the CCA in the long-term should not be considered ERMs.

Third, the definition should recognize the impact of emissions reduction measures over each measure's lifetime. Using building electrification as an example, the impact of that conversion will reverberate for years. A heat pump may have a 20-year life, and the emissions reduction benefit will increase as the electric utility's generation portfolio transitions to 100 percent clean by 2045.

Fourth, the Commission should explicitly define emissions reduction measures to include the consideration of the combined impacts to the electric and gas systems. As we will explain later in our comments, certain likely emissions reduction measures, such as building electrification, will have both gas and electric system impacts. For example, converting a customer's heating needs from gas to electric will reduce the need for gas supply to the gas distribution system but increase the utility's demand for power. Impacts to both the electric and gas systems should be considered in the cost test, both from an emissions, as well as a cost perspective.

Based on these criteria, CCA allowances would not qualify as an emissions reduction measure. An allowance is a compliance instrument that allows the holder to emit a specific amount of emissions. Using an allowance for compliance with the CCA does not result in emissions reductions and it is not durable, as it is only useful for compliance for one year.

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?**

We cannot answer this question today as we do not have sufficient details of the cost test.

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?**

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?**

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

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

The Commission should consider compliance with state law and policy from a portfolio level. The term "lowest reasonable cost" is meant to incorporate both costs and risks. That is, the Commission should seek to minimize both costs and risks, an often-difficult balance, as the least-cost project may be one of the riskiest, and the least risky project may be one of the more costly. The challenge for identifying the lowest reasonable cost portfolio highlights the need for the Commission to consider components other than monetary costs when approving measures, actions, and investments for compliance with state laws and climate policies. We recommend that the Commission also incorporate equity considerations, such as cost and health impacts to low-income customers, as well as non-quantifiable costs, benefits, and risks.

In particular, there are known risks that can be difficult to quantify that should be considered when building a portfolio. For example, to comply with the CCA, the large combination utility must either reduce its emissions to below the emissions threshold or purchase sufficient allowances to cover its obligations. While an allowance can be used for compliance, it does not actually reduce the utility's emissions in the specific year or in subsequent years. It is a compliance instrument that can be used once. Many other emissions reductions measures lock in emissions reductions for subsequent years (e.g., replacing a residential gas furnace with an air source heat pump). As the large combination utility's emissions requirement becomes stricter in future years, there is increased risk to relying on allowances for compliance as the future price is uncertain and is likely to increase with a more limited allowance supply. Purchasing a large number of allowances will only be available at the price ceiling, posing a financial risk to customers when the cost of compliance is passed on.

As another example, the large combination utility and the Commission should be considering the equitable distribution of benefits and burdens when developing a portfolio. As this Commission knows, low-income programs are frequently more costly than similar programs aimed at non-low-income customers. Yet, the utility and the Commission have

an obligation to ensure an equitable distribution of benefits and burdens, which likely means directing the utility to implement programs that are not the lowest cost.

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?**

We cannot answer this question without additional details on the cost test.

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

Yes, avoided costs should be a part of the cost test and in determining whether a project, program, or resource is cost-effective. ERMs will have an impact on either the gas delivery system, the electric delivery system, or both. The impacts – both the costs and benefits – should be considered as part of the cost test to the maximum extent feasible, as well as in determining whether a project, program, or resource is cost-effective. Consider replacing a residential gas furnace with an air source heat pump. There are impacts to the gas system from a reduction in gas supply, gas distribution and transmission capacity, and compliance with the CCA. Likewise, there are impacts to the electric system from adding demand.

The Commission should also strive to take into consideration the long-term impacts of the emissions reduction measures. Using building electrification as an example, the emissions reduction benefit to the utility from the air source heat pump will increase over the course of its life (15 – 20 years) because the large combination utility's electric portfolio will become cleaner through compliance with CETA.

Conclusion

Renewable NW and Climate Solutions thank the Commission for the opportunity to comment on the cost test. We would appreciate more details on the cost test separate from the DER straw proposal so that we can better answer the Commission's questions, and we look forward to engaging in future technical conferences.

Thank you,

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