

September 30, 2016

Mr. Glenn Blackmon
Washington State Energy Office
1011 Plum Street SE
P.O. Box 42525
Olympia, WA 98504-2525

Dear Mr. Blackmon:

Tacoma Power appreciates the opportunity to comment and participate in the rule making process on the proposed amendment to WAC 194-37-070 circulated by your office. We have reviewed the version three (V3) rule changes and have prepared the following comments and recommendations.

General Comments

At the September 21 workshop, Commerce noted that the proposed new rules would be implemented 12/31/2016 and would therefore cover the 2018-2019 CPA process. Tacoma Power and others responded that we are well underway in the development of the 2018-2019 CPA. We are concerned that it may be difficult to incorporate some changes and still develop our targets on time.

Washington utilities work within many compliance regulations. In this case, Washington utilities must also complete an Integrated Resource Plan (IRP) every two years with IRP load and price forecast results as an input to the CPA and the CPA results as an input to the IRP. For Tacoma Power, the IRP typically requires a year to develop and the CPA another 9 months. As a result, we started development of our current CPA process in Q2 of this year and will be more than two-thirds done by the end of this year – when the rule revisions are to take effect. The Gantt chart below provides a high level overview of the interconnectedness and timing of outputs/inputs which lead up to a decision by a board to adopt the conservation potential and target.

CONSERVATION PLANNING PROCESS																								
Legend	2016												2017											
	Q1			Q2			Q3			Q4			Q1			Q2			Q3			Q4		
	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12
Conservation Potential Assessment	[Orange bar]												[Orange bar]											
RFP Development-Selection-Contract	[Orange bar]												[Orange bar]											
Conservation Potential Assessment	[Orange bar]												[Orange bar]											
Market Profile	[Orange bar]												[Orange bar]											
Measure Reviews	[Orange bar]												[Orange bar]											
Account/Survey/Load Fcst Data	[Orange bar]												[Orange bar]											
I-937 Target with Board Study Session and Decision	[Orange bar]												[Orange bar]											
Integrated Resource Planning	[Green bar]												[Green bar]											
WECC Price Forecast (input to CPA)	[Green bar]												[Green bar]											
Evaluation of Portfolios	[Green bar]												[Green bar]											
Select Level of Conservation	[Green bar]												[Green bar]											
Report	[Green bar]												[Green bar]											
Conservation Resource Management	[Blue bar]												[Blue bar]											
Conservation Media Planning	[Purple bar]												[Purple bar]											

We request that for this particular rule making, period, the rules in place at the time of the utility CPA contract signature are appropriate.

For future rule making periods, we recommend rules be developed and finalized during odd years (when the CPA process is nearing completion/boards approving potentials and targets) and implemented in the following even year to avoid conflict with in process planning, contracting and analysis activities of a CPA.

Comments related to Commerce V3 proposed rule changes

(3) Each utility must document the methodologies and inputs used in the development of its ten-year potential and biennial target and must document that its ten-year potential and biennial target are consistent with the requirements of RCW 19.285.040(1). Each utility must apply methodologies consistent with the most recently published regional power plan using inputs that reasonably reflect the specific characteristics of the utility and its customers and the general characteristics of the Pacific Northwest power system.

We appreciate Commerce’s changes to the rule in V3. This draft clarifies the input sources a utility may use in the analysis and that is consistent with a service area perspective. However, we recommend from “and” to “or” is closer to the actual decision process needed in the development of a CPA.

Each utility must apply methodologies consistent with the most recently published regional power plan using inputs that reasonably reflect the specific characteristics of the utility and its customers or the general characteristics of the Pacific Northwest power system.

(5) The methodologies used by the NWPCC in its most recently published regional power plan are summarized in ~~(a) through (e)~~ of this subsection: Any inconsistency between this summary and the most recently published regional power plan must be resolved in favor of the plan.

We do not believe this new sentence added by Commerce is necessary since other sections state consistency with the NWPCC methodologies. Also, we interpret inconsistency to mean a lack of agreement rather than an omission. Also, the language could be construed to subordinate Washington Administrative Code rule to processes of a non-governmental organization.

(viii) Include the social cost of carbon emissions from avoided non-conservation resources:

Tacoma Power believes that this language would improperly limit the calculation of carbon emissions and would not comply with current state law. Our proposal is to change the draft language to the following:

“Include a range of costs for carbon emissions which are incremental to carbon costs already modeled in price forecasts or adders;”

RCW 19.285.040(1)(a) states “Nothing in the rule adopted under this subsection precludes a qualifying utility from using its utility specific conservation measures, values, and assumptions in identifying its achievable cost-effective conservation potential.” However, the current proposed language defines “social costs of carbon” as an assumption that utilities must use and prevents a utility from using “utility specific” assumptions. The suggested language or some similar language that allows utilities to use their own assumptions would be more consistent with the statute.

Additionally, requiring a utility to use a single assumption of carbon costs is not consistent with the analysis in the 7th power plan. The council did not use a single carbon emission cost while developing the 7th power plan. The council established the economic potential for conservation by developing an efficient frontier of power plans across a variety of scenarios that included different assumptions on the cost of carbon. Requiring a utility to use a single assumption for carbon costs or carbon mitigation is inconsistent with the 7th power plan.

Lastly, requiring a utility to only use “social carbon” cost in its conservation assessment is not analytically sound. In the same way that it would be inappropriate for the Commerce to require a utility to use a specific power price forecast, or forecasting methodology, it is inappropriate for Commerce to require a utility to use the “social costs” of carbon as opposed to a range of costs that the utility estimates or forecasts. Emission costs, like all other costs, should be a reflection of the cost born by the utility and its rate payers. Limiting the cost assumptions to only “social costs” may lead a utility to acquire conservation that

is not cost effective to its rate payers if the “social costs” of carbon are a significant portion of the benefits or if the social costs of carbon are significantly higher than the actual costs of carbon borne by a utility and its ratepayers. We appreciate Commerce’s changes in social cost of carbon text in V3. We believe it is a step in the appropriate direction to focus how the social cost of carbon assumptions should be applied to utility resource options.

Finally, as observed in our August 30 comments, we are still concerned this text does not consider possible carbon costs built into the avoided cost.

(ix) Include a risk mitigation credit to reflect the additional value of conservation, not otherwise accounted for in other inputs, in reducing risk associated with costs of avoided non-conservation resources;

We ask that Commerce consider changes to this text to make it neutral. This change is to reflect the fact that conservation can either reduce or increase utility risks. An example of an increase in risk would be a utility relying on a reduction in energy use or capacity savings from a conservation measure that does not materialize.

~~(ix)~~ Include all ~~nonpower non-energy-benefits-impacts~~ that a resource or measure may provide that can be quantified and monetized;

We agree with the proposed change.

(xii) Include the cost of financing measures using the capital costs of the entity that is expected to pay for the measure;

As mentioned in previous comments to Commerce, this language would be impossible for utilities to implement. Utilities create conservation programs that cover a wide range of potential recipient entities. Each potential recipient will have a unique cost of capital that is unknown to the utility. Moreover, that cost of capital will vary significantly among entities.

~~(kxiii)~~ Discount future costs and benefits at a discount rate equal to the discount rate used by the utility in evaluating non-conservation resources based on a weighted, after-tax, cost of capital for utilities and their customers for the measure lifetime

We appreciate this proposed change Commerce has made since the last rules meeting.

~~(mxiv)~~ Include a ten percent bonus for the energy and capacity benefits of conservation measures as defined in 16 U.S.C. § 839a of the Pacific Northwest Electric Power Planning and Conservation Act;

We appreciate this proposed change Commerce has made since the last rules meeting. This is a helpful clarification of the appropriate application of the 10% benefit.

(d) **Economic achievable potential.** Establish the economic achievable potential, which is the conservation potential that is cost-effective, reliable, and feasible, by comparing the total resource cost of conservation measures to the cost of other resources available to meet expected demand for electricity and capacity. A utility may identify economic achievable potential by using either of the approaches described in this subsection:

(i) **Integrated portfolio approach.** A utility may analyze, as a part of its integrated resource plan, the cost-effective potential of conservation resources over a range of potential future outcomes for unknown variables, such as future demand, costs, and resource availability. Economic achievable potential will be based on resource plan that achieves a long-run least-cost and least-risk electric power system considering all power system costs and quantifiable non-energy costs and benefits

(ii) **Benefit-cost ratio approach.** A utility may establish economic achievable potential as those conservation measures or programs that pass a total resource cost test, in which the ratio of total benefits to total costs is one or greater. The benefit-cost calculation must use inputs that incorporate the cost of risks that would otherwise be reflected in an integrated portfolio approach.

~~n-Analyze the results of multiple scenarios. This includes testing scenarios that accelerate the rate of conservation acquisition in the earlier years; and~~

~~(f) Identify conservation measures that pass the total resource cost test, by having a benefit/cost ratio of one or greater as economically achievable;~~

~~(o) Analyze the costs of estimated future environmental externalities in the multiple scenarios that estimate costs and risks.~~

We appreciate the proposed change Commerce has made since the last meeting. As mentioned in earlier comments, we believe this change further improves the utility resource planning process and improvements the alignment with NWPCC methodology. We do recommend moving this section to the top of section 194-37-070 (5).

Finally, we wish to thank you and other commerce staff for the work put into this rulemaking. Balancing many strongly held opinions is not an easy task. We appreciated the open and inclusive process used to develop these rules. Please contact me if you have any questions about our comments.

Sincerely,

Nicolas Garcia
Assistant Power Manager

