



STATE OF WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

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Dec. 30, 2021

Chairs and Ranking Members

Senate Environment, Energy & Technology Committee and

House Environment & Energy Committee

P.O. Box 40466

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Olympia, WA 98504-0466

Olympia, WA 98504

Re: Update on Performance-Based Regulation Proceeding

Dear Chairs Carlyle and Fitzgibbon and Ranking Member Dye:

Pursuant to Section 1 of Engrossed Substitute Senate Bill 5295, the Utilities and Transportation Commission (UTC or Commission) provides via this letter an update on the process to date, expected duration, and work plan of the Commission's proceeding to develop a policy statement addressing performance-based regulation of investor-owned electric and natural gas companies.¹

Purpose

The legislature requires the Commission to "conduct a proceeding to develop a policy statement addressing alternatives to traditional cost of service ratemaking, including performance measures or goals, targets, performance incentives, and penalty mechanisms." By January 1, 2022, the Commission must report to the appropriate committees of the legislature on the process to date, expected duration of the proceeding, and work plan.

Attached as an Appendix to this letter is the Commission's proposed work plan that provides the expected duration and schedule for the proceeding. This letter provides a narrative describing the work plan and the process to date.

¹ See RCW 80.28.425 (2021 c 188 Sec. 1).

Background

The Commission must conduct a proceeding to develop a policy statement with the purpose of providing clarity and certainty to stakeholders regarding alternatives to traditional cost of service ratemaking, including performance-based regulation (PBR). In the proceeding, the Commission must address:

- performance measures and goals,
- targets,
- performance incentives, and
- penalty mechanisms.

As part of the proceeding, the Commission must also consider, but is not limited to, the following factors:

- lowest reasonable cost planning,
- affordability and increases in energy burden,
- cost of service,
- customer satisfaction and engagement,
- service reliability,
- clean energy or renewable procurement,
- conservation acquisition,
- demand side management expansion,
- rate stability,
- timely execution of competitive procurement practices,
- attainment of state energy and emissions reduction policies,
- rapid integration of renewable energy resources, and
- fair compensation of utility employees.

In developing its policy statement, the Commission must seek feedback and consultation from regulated utilities², the Attorney General's Office, and other interested stakeholders.³

Process to Date

On July 30, 2021, the Commission opened Docket U-210590 to begin this proceeding. Between July 30th and October 11th of this year, the Commission developed a draft work plan for the

² Utilities include investor owned electric and natural gas companies, water and wastewater companies, and telecom companies consistent with [RCW 80.04.010](#).

³ Other stakeholders can include but are not limited to residential, commercial, industrial, and low-income customers and organizations, and environmental and community organizations and stakeholders.

proceeding, and on October 11th, the Commission issued notice of opportunity to file written comments on the draft work plan.⁴

On November 29, 2021, the Commission received written comments from eight parties: Avista Corporation, Cascade Natural Gas Corporation, PacifiCorp, Northwest Natural Gas Company, Puget Sound Energy, Public Counsel, Northwest Energy Coalition, and Northwest & Intermountain Power Producers Coalition. The final work plan shown in Appendix A, incorporates feedback the Commission received from stakeholders.⁵

As shown in the Appendix, the Commission expects conduct this proceeding in five phases, with the bulk of policy development taking place over the next three years. The five phases and their anticipated completion dates are as follows:

- Phase 1 – Development of performance metrics (March 2023)
- Phase 2A – Development of reporting and review processes (December 2023)
- Phase 2B – Development of revenue adjustment mechanisms for multiyear rate plans (March 2024)
- Phase 3 – Development of performance incentive mechanisms (December 2024)
- Phase 4 – Exploration of (other) alternative forms of regulation (December 2025)
- Phase 5 – Continuous review and improvement process (ongoing)

In addition to the multiyear rate plan revenue adjustment mechanisms the Commission identifies in Phase 2B of the work plan, the Commission also is considering providing multiyear rate plan filing guidance in the early part of 2022.

As it was developing the work plan for this proceeding, the Commission reviewed the timelines and work plans of other state utility commissions that have undertaken similar processes, including the processes referenced in stakeholder comments.⁶ The timeline for policy development outlined in the Appendix is consistent with the timelines for the PBR policy proceedings undertaken in Minnesota and Hawaii, both of which are similar in scope to the proceeding outlined in the Appendix.

Although the Appendix reflects feedback the Commission has received from stakeholders through November 29, 2021, certain topics that stakeholders recommended be addressed through this proceeding have not yet been incorporated into the Appendix as the Commission requires additional information on how those topics are necessary to address or are germane to the

⁴ On Oct. 20, the Commission issued notice extending the due date for written comments from Nov. 16 to Nov. 29.

⁵ These documents are on file with the Commission in Docket U-210590. All comments, notices, and other documents related to this proceeding will continue to be filed in this docket.

⁶ While stakeholders referenced timelines of processes undertaken in other states, stakeholders had a wide range of perspectives on the timeline proposed by the Commission. In comments filed November 29, 2021, several stakeholders supported the proposed timeline, one stakeholder suggested that the timeline should be flexible, one stakeholder advocated for a shorter timeline, and one stakeholder advocated for an extended timeline.

development of policy on PBR.⁷ However, the Commission will continue to discuss the need to address any additional topics raised by stakeholders throughout this proceeding, including topics identified in comments received on November 29. The Commission expects that the work plan for this proceeding will continue to evolve with further dialogue and input from stakeholders.

Sincerely,

Chair Dave Danner

Commissioner Ann Rendahl

Commissioner Jay Balasbas

cc: Members of the Senate Energy, Environment and Technology Committee
Members of the House Environment and Energy Committee

⁷ E.g., in comments filed on November 29, 2021, Northwest & Intermountain Power Producers Coalition requested that in this proceeding the Commission address a utility's opportunity to earn a rate of return on power purchase agreements.