



March 31, 2026

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Re: Comments of Renewable Northwest regarding the Commission’s proceeding to develop a policy statement addressing alternatives to traditional cost of service ratemaking, Docket U-210590.

I. INTRODUCTION

Renewable Northwest (“RNW”) appreciates the opportunity to provide written comments in response to the Washington Utilities and Transportation Commission’s (“the Commission”) March 10, 2026, Notice of Opportunity to Comment (“Notice”) regarding the ongoing performance-based regulation (“PBR”) proceeding. The Commission’s determination of how to apply the statutory incentive range—from cost of debt to the authorized rate of return—will play a critical role in shaping utility procurement behavior under a PBR framework. Properly balanced, this mechanism can address longstanding incentive misalignments in traditional cost-of-service regulation and support least-cost, least-risk resource acquisition consistent with Washington’s Clean Energy Transformation Act (“CETA”).

As recognized by the Regulatory Assistance Project (“RAP”), traditional cost-of-service regulation inherently incentivizes utility preference for rate-based capital investment over third-party solutions such as power purchase agreements (“PPA”), due to the linkage between earnings and rate base growth.¹ Accordingly, the Commission’s approach to return on PPAs should be

¹ Prause, Elaine, and Jessica Shipley. *Performance-Based Regulation: Considerations for the Washington Utilities and Transportation Commission*. Regulatory Assistance Project, 2021.

grounded in the objective of achieving practical indifference between utility ownership and third-party procurement with a clear focus on customer value while maintaining reliability and progress towards clean energy mandates.

II. COMMENTS

The purpose of a return on PPAs is not to replicate developer returns or fully compensate utilities as if they owned the asset. Rather, it is to address the structural “capital bias” embedded in cost-of-service regulation, under which utilities are incentivized to favor owned assets over contracted resources. A carefully designed return should reduce the differential incentive between self-build and PPA procurement, avoid overcompensation for assets not financed or owned by the utility, and preserve least-cost, least-risk outcomes for customers. While key components of Washington’s robust RFP process—such as the use of an independent evaluator—mitigate some capital bias concerns, in RNW’s view, this bias is not eliminated. By considering a range of returns on various PPAs, the Commission can advance optimal resource procurement solutions that both help to mitigate this bias and protect customers.

The following section provides RNW’s responses to the three questions posed in the Commission’s Notice regarding return on PPAs—an essential consideration as the Commission seeks to balance utility incentives with customer benefits.

1. Which factors should the Commission take into consideration to establish the return on a PPA, and what should be the recommended return in each case?

RNW recommends that the Commission adopt a sliding-scale framework within the statutory range, with a mid-range return as the default for prudently procured PPAs and adjustments based on clearly defined factors. PPAs with shorter durations or those that do not drive new investment—such as those for legacy hydroelectric resources—should receive returns on the lower end of the spectrum, if at all. This approach allows the Commission to correct the structural bias toward utility-owned resources while ensuring that returns remain grounded in demonstrable system value. Importantly, RCW 80.28.410(2)(b) does not mandate a return for CETA-compliant resources. Therefore, while the Commission should establish clear factors to determine the appropriate level of return for various PPAs, the applicability of a return can still be addressed on a case-by-case basis. RNW recommends the Commission establish such factors in this proceeding while signaling that returns will be set, allowed, or disallowed in the appropriate prudency review proceeding, as detailed in the notice.

Given the relation of this docket to Washington’s clean energy policy mandates, it is appropriate to provide higher returns for renewable and non-emitting resources. We do not necessarily think the full ROR should automatically be applied in these cases; rather, the non-emitting status should serve as a baseline upward adjustment from the default mid-level. Additional upward adjustment may also be warranted where such resources provide capacity or flexibility, integration benefits, or system cost reductions.

Contract duration is another helpful indicator of value. RNW recommends defining long-term PPAs as those with terms of fifteen years or greater and providing incremental return increases for longer-duration contracts. Long-term PPAs provide tangible benefits to customers, including greater price stability, improved resource adequacy planning, and lower financing costs that can be passed through to ratepayers.

The Commission should give additional weight to a PPA providing capacity, dispatchability, or operational flexibility. CETA-compliant resources that contribute to system reliability—such as renewables paired with storage—deliver value that extends beyond energy production. These resources can reduce reliance on emitting peaking resources and should be eligible for returns toward the upper end of the statutory range where their benefits are clearly demonstrated.

Finally, the Commission should consider the distinct risk and financing characteristics of PPAs relative to utility-owned resources. PPAs transfer risks, including construction and operational performance risk, to third-party developers and do not require the same level of utility capital investment. These differences support a calibrated approach to returns. While a meaningful return is necessary to ensure utilities are not financially disincentivized from selecting PPAs, a full authorized ROR is not required in all cases to achieve procurement neutrality. A mid-range default, with adjustments based on clearly demonstrated value, appropriately reflects both the reduced risk profile of PPAs and the Commission’s objective of aligning utility incentives with customer interests. Additionally, in order to honor the principle that a return on PPAs should achieve practical indifference between resource ownership types, the Commission should take a deep ratemaking dive to understand how a PPA is appropriately accounted for if it is not associated with a utility investment. Put another way, the Commission should consider the impacts of enabling utilities to earn a return on an expense that does not require shareholders to outlay capital or incur debt.

2. Should the Commission require utilities to assess PPAs as alternatives to utility build investments when justifying the investment, demonstrating that PPAs were evaluated as part of the project viability analysis?

RNW strongly supports requiring utilities to evaluate PPAs as alternatives to utility-owned resources. Such a requirement is a necessary complement to any return-on-PPA framework and is essential to achieving the Commission's broader objective of aligning utility incentives with least-cost, least-risk outcomes for customers.

While competitive procurement processes, including RFPs and the use of independent evaluators, are critical components of resource acquisition, they do not fully eliminate the structural incentives embedded in traditional ratemaking. Utilities retain significant discretion in how procurements are designed, including the timing, structure, and evaluation criteria of solicitations. Even where an independent evaluator is present, the financial incentive to favor utility-owned resources can be so embedded in the procurement process that the independent review alone does not ensure neutrality between self-build and PPA outcomes.

A requirement to evaluate PPAs alongside utility-owned alternatives serves as an important safeguard. This evaluation should occur within a transparent and competitive procurement framework. Together, return on PPA and procurement requirements can establish a framework in which utilities are expected to give meaningful consideration to third-party solutions, thereby advancing the Commission's goal of achieving neutrality between ownership models.

3. PSE argued in its 2024 GRC that credit agencies have deemed the costs of PPAs as debt, and that providing a return could benefit utility credit metrics. However, Public Counsel provided comment in this docket that customers are already paying a return on PPA as the generation owner includes their return as a component of their pricing structure.

a. How should the Commission consider these two viewpoints?

RNW appreciates that the Commission is taking into account differing perspectives regarding the treatment of returns in PPA arrangements. While PSE has noted that long-term PPAs may be viewed by credit rating agencies as debt-like obligations with the potential to impact credit metrics and financing costs, Public Counsel has flagged that customers already pay a return embedded in PPA pricing by the developer. RNW recommends that these considerations be evaluated within the broader context of the Commission's regulatory objectives.

The central issue is not whether a PPA includes a return at the project level, but whether the regulatory framework creates balanced incentives for utilities to pursue the most cost-effective and least-risk resources available. As established earlier in these comments, utilities have a clear financial incentive to favor utility-owned resources because those investments are included in the rate base and earn a return. Because PPAs have not historically provided an equivalent opportunity for shareholder earnings, there is an asymmetry influencing procurement decisions. An authorization to allow a return on PPAs is intended to address this imbalance.

The fact that a developer's return is embedded in the PPA price does not resolve the need for a regulatory mechanism to align utility incentives. Return on PPAs should be understood as a means of ensuring that utilities are not financially disincentivized from selecting third-party resources when they are in the best interest of customers. At the same time, we recommend that any authorized return on PPAs is set at a level that supports procurement neutrality without imposing unnecessary costs on customers.

b. Should the Commission consider a utility's credit outlook when determining an appropriate PPA return?

RNW recommends that these considerations be treated as secondary. While the treatment of PPAs in credit analyses may have implications for utility financing, the Commission's role in ensuring just and reasonable rates and in promoting efficient, policy-aligned resource procurement should guide its evaluation. In this context, the relevant question is not whether a PPA includes a return at the project level, but whether the overall structure of incentives leads utilities to select the least-cost, least-risk resources for customers.

III. CONCLUSION

Renewable Northwest thanks the Commission for its continued pursuit of alternatives to traditional cost of service ratemaking. We look forward to discussing these topics further.

Sincerely,

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