

WAC 194-40-230 Compliance using two percent incremental cost of compliance. (1) For any period in which a utility relies on RCW 19.405.060 (4) (a) to meet an interim target during an interim performance period or as the basis for compliance with the standard under RCW 19.405.040(1) or 19.405.050(1), the utility must:

(a) Document, as provided in this section, incremental costs that are directly attributable to actions necessary to comply with the requirements of RCW 19.405.040 and 19.405.050; and

(b) Demonstrate that the average annual incremental costs identified under (a) of this subsection are at least equal to an annual threshold amount that would result from a two percent revenue increase at the beginning of each year of the period, divided by the number of years in the period. For a period consisting of four years, the mathematical formula for the annual threshold amount is:

$$\text{Annual Threshold Amount} = \frac{(RR_0 \times 2\% \times 4) + (RR_1 \times 2\% \times 3) + (RR_2 \times 2\% \times 2) + (RR_3 \times 2\%)}{4}$$

Where *RR* indicates retail revenue requirement and the numerical subscript indicates the year of the period.

Example calculation of annual threshold amount:

Year	Retail Revenue Requirement	Annual Amount from Revenue Increase Equal to 2% of Prior Year Revenue Requirement	Number of Years in Effect	Threshold Amount over Four Years	Sum of Threshold Amounts	Annual Threshold Amount
0	\$100					
1	\$105	\$2.00	4	\$8.00	\$21.00	\$5.30
2	\$110	\$2.10	3	\$6.30		
3	\$115	\$2.20	2	\$4.40		
4	\$120	\$2.30	1	\$2.30		
Annual Threshold Amount as a Percentage of Average Retail Revenue Requirement						4.7%

(2) For the purposes of compliance using RCW 19.405.060 (4) (a), a cost is directly attributable to actions necessary to comply with the requirements of RCW 19.405.040 and 19.405.050 only if all of the following conditions are met:

(a) The cost is incurred during the period;

(b) The cost is part of the lowest reasonable cost and reasonably available portfolio of resources that results in compliance with RCW 19.405.040 and 19.405.050;

(c) The cost is additional to the costs that would be incurred for the lowest reasonable cost and reasonably available resource portfolio that would have been selected in the absence of RCW 19.405.040 and 19.405.050; and

(d) The cost is not required to meet any statutory, regulatory, or contractual requirement or any provision of chapter 19.405 RCW other than sections RCW 19.405.040 or 19.405.050.

(3) A utility using the compliance method in this rule must include in its CEIP for the period the following information:

(a) Identification of all costs that it intends to incur during the period in order to comply with the requirements of RCW 19.405.040 and 19.405.050;

(b) Demonstration that the costs identified in (a) of this subsection are directly attributable to actions necessary to comply with the requirements of RCW 19.405.040 and 19.405.050; and

(c) Documentation of the expected cost of the utility's planned resource portfolio and the expected cost of the alternative lowest reasonable cost and reasonably available portfolio.

(4) The utility must include in the compliance report required by WAC 194-40-040 the following:

(a) Documentation by year of the actual and lowest reasonable costs incurred during the period for the costs identified in subsection (1)(a) of this section.

(b) Documentation by year of the costs that the utility would have incurred to acquire the alternative lowest reasonable cost and reasonably available portfolio of investments.

(c) A calculation of the average annual incremental costs by summing the differences between costs reported in (a) of this subsection and costs reported in (b) of this subsection and dividing by the number of years in the period.

(d) A comparison demonstrating that average annual incremental costs for the period, calculated as specified in (c) of this subsection, equal or exceed the annual threshold amount calculated as specified in subsection (1)(b) of this section.

(5) If a resource included in an actual or alternative portfolio has a useful life or contract duration of greater than one year, the cost of that resource must be allocated over the expected useful life or contract duration using a levelized cost or fixed charge factor.

(6) The CEIP must substantiate the information required in subsection (3) of this section using a comprehensive assessment of alternative resource portfolios, such as an integrated resource plan prepared in compliance with chapter 19.280 RCW.

(7) A utility must include in all cost calculations under this rule the effects on resource selection and acquisition of the social cost of greenhouse gas emissions cost adder requirement under WAC 194-40-110. A utility may not include in the cost calculations any greenhouse gas emissions costs, fees, or taxes unless customers will pay those amounts through their electricity purchases.

(8) As used in this rule, "period" means the years covered by each CEIP developed in compliance with RCW 19.405.060(2).

[Statutory Authority: RCW 19.405.100 and 19.405.060. WSR 21-02-039, § 194-40-230, filed 12/29/20, effective 1/29/21.]