BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of Puget Sound Energy's Final Biennial Clean Energy Implementation Plan Update	**DOCKET UE-210795**

COMMISSION STAFF COMMENTS REGARDING PUGET SOUND ENERGY'S BIENNIAL CLEAN ENERGY IMPLEMENTATION PLAN UPDATE SUBMITTED IN COMPLIANCE WITH CHAPTER 19.405 RCW and WACs 480-100-640 through -665

January 11, 2023

Table of Contents

Introduction

In 2019, the Washington Legislature passed the Clean Energy Transformation Act (CETA) to address the impacts of climate change by transforming the energy supply, modernizing the electric system, and ensuring the benefits are shared broadly.[1] The act sets the following mandatory targets:

2025 – All electric utilities must eliminate coal-fired resources serving Washington state customers.

2030 – All electric utilities must be greenhouse gas neutral—for example, remaining carbon emissions are offset by renewable energy, energy efficiency, carbon reduction project investments, or payments funding low-income assistance.

2045 – All electric utilities must supply one hundred percent of retail sales of electricity from renewable or zero-carbon resources.

The Utilities and Transportation Commission (Commission) finalized rules implementing CETA on December 28, 2020.[2]

Puget Sound Energy (PSE or Company) filed its first Public Participation Plan (PPP) for its clean energy implementation plan (CEIP) on April 30, 2021, and a revision September 1, 2021.[3] The Company filed a PPP update on May 1, 2023, in Docket UE-210297.

PSE filed a draft of its first CEIP on October 15, 2021, and filed its first final CEIP on December 17, 2021.[4] After an adjudicative proceeding, the Commission approved the Final CEIP in docket UE-210795 Order 08, subject to 32 conditions.[5] These conditions had a variety of due dates that ranged from 10 days after Order 08 was entered to the filing of PSE's 2025 CEIP.

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[1] RCW 19.405.010(1).

[2] *In re Adopting Rules Relating to Clean Energy Implementation Plans and Compliance with the Clean Energy*

Transformation Act and Amending or Adopting rules relating to WAC 480-100-238, Relating to Integrated Resource Planning, Dockets UE-191023 & UE-190698 (Consolidated), General Order 601, 58-59, ¶ 168 (Dec. 28, 2020) (CETA Rulemaking Order).

[3] *See* Docket UE-210297.

[4] *In re Puget Sound Energy Clean Energy Implementation Plan*, Docket UE-210795, Final 2021 CEIP (Dec. 17, 2021) (Final CEIP).

[5] *In re Puget Sound Energy Clean Energy Implementation Plan*, Docket UE-210795, Order 08 (June 6, 2023) (Order 08).

On November 1, 2023, PSE filed its 2023 Biennial CEIP Update to the 2021 CEIP, as required by WAC 480-100-640(11). PSE filed a revised version of its Biennial Update on November 20, 2023.[6]

Commission staff (Staff) reviewed PSE's Biennial Update and its compliance with the rules, statutes, and conditions that govern it, and provide analysis and comments in this document. Along with compliance considerations, Staff also identifies areas for improvement. Staff reserves its final recommendations for the open meeting process identified in WAC 480-100-645, Process for review of CEIP and updates.

Overview

Overall, Staff believes that this Biennial Update presents several important improvements since the 2021 CEIP, including addressing many of the conditions from Order 08, though compliance with several is not required until the 2025 CEIP. This filing marks roughly the midpoint of the first CEIP compliance period. Staff recognizes that the work CETA envisions will take time and will be iterative, but we also understand that the early years of CETA compliance will likely have an outsized impact on the trajectory of the transition overall. In these comments, Staff intends to be fair in the early stages of the clean energy transition, while also providing feedback and recommendations, where needed.

Interim Targets

In this Biennial Update, PSE proposes *changing the interim targets* approved in its 2021 CEIP to a single Interim Target of 54.5 percent of CETA retail load met with renewable and non-emitting energy. Table 1, below shows a comparison of this proposal to PSE's current Interim Targets (as approved in PSE's 2021 Final CEIP).

Table 1 - 2021 CEIP Interim Targets vs 2023 Biennial Update Proposed Interim Target[7]

	2022	2023	2024	2025	Average
2021 CEIP	**43%**	**53%**	**59%**	**63%**	54.5%
2023 BCEIP	45.4%	53%	60%	60%	**54.5%**

NOTE: **Bold** numbers are the approved (2021 CEIP) and proposed (2023 Biennial Update) Interim Targets

PSE asserts that a single, four-year Interim Target – as opposed to a series of annual Interim Targets – is more practical than multiple annual targets due to the "variability in factors that

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[6] *In re Puget Sound Energy Clean Energy Implementation Plan*, Docket UE-210795, 2023 Biennial Clean Energy Implementation Plan Update (Corrected) (November 20, 2023) (Revised Biennial Update)

[7] Based on Table 2.5 of Biennial Update.

affect actual retail electric loads and generation from clean energy resources in any given year,"[8] including:

- Weather conditions (load and generation)
- Hydro conditions (generation)
- Timing of Commercial Operational Dates (CODs) for new resources

Staff asserts using a four-year average Interim Target to measure compliance over the four-year CEIP period would have a smoothing effect on variability in these factors from year to year. Further, Staff does not believe existing Commission rules or statutes preclude a company from proposing multi-year average Interim Targets. However, it is Staff's position that alteration of the annual interim targets is not appropriate at this time.

First, Staff does not believe that this shift should be retroactive. Changing an annual target *after* the performance year has passed defeats the purpose of having a target. For this reason, Staff opposes PSE's proposal insofar as it is retroactively adjusting the targets for 2022 and 2023.[9]

Second, Staff notes that many of the reasons PSE cites to support its proposed average Interim Target are issues that are already contemplated in the CETA statute. For example, the statute allows the Commission to relieve a "utility of its administrative penalty obligation . . . if it finds that . . .[t]he investor-owned utility is unable to comply . . . due to reasons beyond the reasonable control of the investor-owned utility."[10] This language comes from the "Compliance, enforcement, and penalties – Alternatives" section of the CETA statute, signifying its relevance to the compliance phase of CETA implementation.

Finally, PSE's concerns appear to be rooted in a fear that any and all shortfalls in reaching interim targets shall result in an automatic penalty assessment. However, the Commission explicitly stated in the adoption order implementing the CEIP rules that "[w]e expect the Commission to use discretion, as opposed to rote adherence, in enforcing the interim targets."[11] Once the 4 year compliance review is underway, the Commission will have a full view of the progress each company has made toward CETA compliance.

PSE is halfway through its first CEIP compliance period, which is not an appropriate time to address compliance – or alternative compliance mechanisms. **For these reasons, Staff recommends the Commission reject PSE's proposed four-year average Interim Target in this Biennial Update.**

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[8] Revised Biennial Update at 2.3.

[9] Although there were still 2 months left in 2023 at the time this Biennial Update was filed in November 2023, alteration of the 2023 annual target after 10 of 12 months already passed effectively amounts to a retroactive change.

[10] See RCW 19.405.090(3)(a)(ii).

[11] CETA Adoption Order at 34, n.34.

On the issue of inter-year weather variability, resource procurement, hydro performance, or other factors impacting PSE's ability to meet its Interim Targets, Staff looks forward to evaluating these issues in the Company's compliance filing due in 2026. Staff also notes that many of these factors are not new. The impacts of weather variability on renewable energy production, hydro performance, and customer energy use forecasts are something Staff believes the Company should have accounted for in its 2021 CEIP target-setting process.

More than weather variability, Staff is concerned with PSE's load forecasting and what appears to be a potential shortfall in renewable energy in 2025 due to procurement delays, hydro contract expirations, and "anticipated opportunities" which may or may not materialize.

Load forecast: Table 2.11 shows that PSE's recent load forecasts underestimated load growth in the near term.[12] Staff encourages PSE to study the root cause of these forecast inaccuracies to avoid them in the future. Continuing to under-forecast load growth could put PSE at risk of missing its Interim Targets – and ultimately its 2030 CETA obligation – even if the Company acquires clean energy as efficiently as possible. As mentioned in Staff comments on PSE's 2023 Electric IRP Progress Report (2023 EPR),[13] **Staff recommends that PSE further study how voluntary electrification of loads may be impacting both its gas and electric systems. Honing the Company's electric vehicle forecast will also be key to ensuring accurate load projections.**

Procurement: PSE notes that some resources resulting from its 2021 All-source Request for Proposals (RFP) may be delayed in their commercial operation dates, which is shifting their initial renewable energy contributions from 2025 to 2026.[14] Staff understands that some of the factors influencing this delay may be out of PSE's control. Nonetheless, **Staff encourages PSE to ensure timely delivery of clean energy resources by, for example, working with the Company's Independent Evaluator to explore ways to streamline the RFP process in future all-source procurements while maintaining the integrity of the process and its results.**

Hydro contracts: PSE notes that several of its hydro contracts are due to expire and it is not clear whether they will be renewed.[15] It is unclear to Staff why this issue came up in this 2023 Biennial Update filing when, presumably, PSE would have known about these contracts and their expiration dates during the 2021 CEIP process. **Staff recommends PSE provide more context on why uncertainty around these contract renewals is only now coming up.**

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[12] Revised Biennial Update at 2.11.

[13] *In re Puget Sound Energy's 2021 Electric Integrated Resource Plan*, Docket UE-200304, Staff Comments regarding PSE's 2023 Electric Integrated Resource Plan Progress Report (Jun. 5, 2023).

[14] Revised Biennial Update at 2.13.

[15] Revised Biennial Update at 2.13.

"Anticipated opportunities to pursue in 2025:" Included in PSE's projection for CETA-eligible energy in 2025 is 1,200 GWh described as "Anticipated opportunities to pursue in 2025," which Staff understands to be an opportunistic approach to acquiring renewable energy via short-term transactions.[16] This energy seems to be much more speculative than the other resources on which PSE plans to rely to meet its annual clean energy targets. **Staff has concerns about PSE's reliance on this unspecified resource, especially given it accounts for over 10 percent of PSE's renewable energy in 2025. This means if the resource is not available, PSE would only serve 54 percent of its 2025 CETA load with clean energy (rather than the 60 percent it currently projects).**

Specific Targets

In this 2023 Biennial CEIP update, PSE updated its Energy Efficiency, Renewable Energy, and Demand Response Specific Targets.

Energy Efficiency

In its 2021 CEIP, PSE set its Energy Efficiency Specific Target by taking the 2022-2023 Biennial Conservation Plan's (BCP) 2-year target and doubling it to approximate savings over the CEIP's 4-year compliance period. In this 2023 Biennial CEIP update, PSE is requesting approval of an updated Energy Efficiency Specific Target that replaces the estimated savings in the final two years of this CEIP compliance period with the Total Utility Conservation Goal in its 2024-2025 BCP.

Table 2 - Energy Efficiency Targets Comparison: 2021 CEIP vs 2023 Biennial CEIP Update[18]

		2022-2023	**2024-2025**	**Energy Efficiency Specific Target**
Approved Target	2021 CEIP	536,717 MWh	536,717 MWh	1,073,434 MWh
PSE Proposal	2023 Biennial Update	536,717 MWh	397,620 MWh[17]	**934,337 MWh**

Staff supports PSE's 2023 Biennial Update Energy Efficiency Targets, as proposed by PSE. Staff filed more extensive comments relating to this 2024-2025 BCP targets and programs in Docket UE-230892.

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[16] Revised Biennial Update at 2.5, Table 2.8.

[17] 397,620 MWh represents PSE's "Total Utility Conservation Goal" from its 2024-2025 Biennial Conservation Plan, Docket UE-230892, (Nov. 1, 2023).

[18] *See* Revised Biennial Update at 2.15-2.16.

Renewable Energy

In response to condition 5,[19] PSE updated its Renewable Energy Specific Target to be expressed as a percent of retail load served by renewable energy, rather than a nameplate capacity for new utility-scale renewable energy as initially proposed in the Company's 2021 CEIP. PSE took a different approach to this target than PacifiCorp and Avista in that PSE interpreted the Renewable Energy Specific Target as an incremental value. In other words, PSE's target represents only the renewable energy produced by *new* resources, rather than *all* renewable energy serving its customers.

Condition 5's language mirrors that of WAC 480-100-640(3)(a)(iii), which specifically describes the Renewable Energy Specific Target as, "the percent of retail sales of electricity supplied by renewable resources." Staff interprets this language to mean *all* electricity supplied by renewables, not just the incremental renewables added during a given compliance period. **While PSE did express this target as a percent of retail sales, Staff recommends the Company be required to revise its Renewable Energy Specific Target to reflect *all* retail sales of electricity supplied by renewable resources, as the rule requires.** Staff understands the Renewable Energy Specific Target described in WAC 480-100-640(3)(a)(iii) to include only energy produced by renewable resources. **Thus, Staff also recommends PSE make clear in future filings whether "CETA-eligible energy" represents energy from renewable resources[20] or if it also includes non-emitting electric generation.[21]**

Table 3 shows a comparison of PSE's Renewable Energy Specific Target from its 60-day compliance filing (based on the 2021 CEIP) and this 2023 Biennial Update. It also compares the incremental and cumulative expression of the same targets.

[19] *See* Order 08 at 21: "CONDITION 5: In the 2023 Biennial CEIP Update and subsequent CEIPs, PSE must express the renewable energy specific target as a percentage of retail load."

[20] As defined in RCW 19.405.020(34).

[21] As defined in RCW 19.405.020(28).

Table 3 – Renewable Energy Targets Comparison: 2021 CEIP vs 2023 Biennial CEIP Update

		New Utility-scale CETA-eligible Energy (MWh)	Other CETA-eligible Energy (MWh)	CETA Retail Load (MWh)	Renewable Energy Specific Target (2025)	
					Incremental	Cumulative[22]
60-day Compliance Filing[23]	2021 CEIP	1,886,343	9,495,262	17,997,487	10.48%	63.24%
PSE Proposal[24]	2023 Biennial Update	2,185,000	9,749,832	19,903,567	11%	60%

Demand Response

In condition 4 for approval of PSE's 2021 CEIP, the Commission required PSE to increase its demand response (DR) target to "include all cost-effective DR bids it received in response to its recent RFP." The condition went on to say, "PSE will include expanded Direct Load Control offerings in this increased target."[25]

PSE responded to this condition by proposing an increase to its DR Specific Target from 23.7 MW to 86 MW by 2025. Whether this number represents "all cost-effective DR bids" from PSE's distributed energy resource (DER) RFP is difficult to confirm because many of the bids represent different bidders targeting the same resources (e.g., different bids both targeting residential smart thermostat-enabled DR). This means that the 161 MW of demand response that PSE reported in its Bid Summary Report is not a good estimate of those bids' actual DR potential,[26] but the *extent* of the overlap is difficult to quantify. PSE's Independent Evaluator for the DER RFP, Bates-White, makes note of the Commission's order on PSE's 2021 CEIP in their Final Report. In reference to Condition 4, Bates-White states that PSE's "acquisition is larger than the initial RFP targets, but in line with the approval order from the [2021] CEIP, which

[22] These cumulative values reflect what PSE calls "CETA-eligible energy" which may include non-emitting resources in addition to renewable energy. For this reason, the actual Renewable Energy Specific Target may be lower than these figures.

[23] *See* Revised Biennial Update at 2.23, Table 2.21.

[24] *See* Revised Biennial Update, at 2.23, Table 2.22.

[25] Order 08 at 19.

[26] *See In re Puget Sound Energy's Petition for an Order Approving Proposed Request for Proposals*, Docket UE-210878, 2022 DER RFP: Proposal Summary Report, at 3 (Apr. 19, 2022).

charged PSE with acquiring more cost-effective DR resources."[27] Based on this assessment, Staff believes that PSE's updated DR Specific Target likely meets the requirements of Condition 4.

However, Staff's reading of Condition 4 and our understanding of the Commission's authority, would suggest that PSE is still bound by statute to pursue all cost-effective demand response.[28] Staff does not believe the Commission intended PSE to be *limited* to the cost-effective demand response that was included in the Company's first procurement for this resource. **Staff's review indicates that there is potentially additional cost-effective DR available, which PSE should continue to pursue, as described below.**

As part of PSE's 2023 IRP Progress Report, the Company's Conservation Potential Assessment (CPA) consultant, Cadmus, evaluated the achievable demand response potential. In this potential assessment, Cadmus estimated that 122 MW of winter (and 128 MW of summer) demand response are technically achievable by 2025.[29] PSE's preferred portfolio included 136 MW of DR by 2025,[30] which included all of the CPA's achievable potential and additional interruptible load potential during that period. Both of these data points indicate the potential availability of more DR capacity by 2025 than PSE's proposed 86 MW Specific Target.

Staff acknowledges that PSE is currently in the process of rolling out its first system-wide DR programs and, with limited experience, there are likely to be limits to the ramping time for the DR that is theoretically available. That said, Staff does not understand why PSE would have included these DR ramp rates in its 2023 IRP Progress Report if it thought they were unreasonably aggressive. Staff expects PSE to adaptively manage its new DR programs and pursue more DR capacity where it is cost-effective, as required by CETA.

Specific Actions

Commission Staff identified deficiencies in PSE's Specific Actions as outlined in PSE's 2021 CEIP, especially the Company's extensive (over) reliance on unknown results from several of its requests for proposals (RFPs). In this Biennial Update PSE provided updates to its Specific Actions in Chapter 5. This included more information about the Company's new demand

[27] *See Final Report on PSE's DER RFP*, Docket UE-210878, at 3 (Jan. 5, 2024).

[28] RCW 19.405.040(6)(a).

[29] *In re Puget Sound Energy's 2021 Electric Integrated Resource Plan*, Docket UE-200304, Appendix E to the 2023 Progress Report at 42-43 (Apr. 4, 2023).

[30] Even PSE's "reference portfolio" – a portfolio resulting from a more strictly cost-based optimization – included 133 MW of DR by 2025. *In re Puget Sound Energy's 2021 Electric Integrated Resource Plan*, Docket UE-200304, Appendix I to the 2023 Progress Report, "App_I_Output_Portfolio Output Summary" workbook, "Build Details" tab (Mar. 31, 2023).

response programs (including the time-varying rates pilot), its progress in the 2021 All-source RFP, and some of the known and potential distributed solar and storage project details.

Staff addresses demand response in the "Specific Targets" (above) and "Condition 23" (below) sections of these comments.

PSE notes that it has executed one contract from its 2021 All-source RFP so far (a 15-year wind power purchase agreement),[31] with contract negotiations ongoing with other resources on that RFP's shortlist. The Company also notes its other procurement efforts, which may yield important CETA-compliant resources, but likely not within this CEIP compliance period. PSE also mentions that it anticipates filing a voluntary all-source RFP in 2024 to meet energy and capacity needs.

The Company describes the distributed solar and distributed storage resources it expects to be online in this CEIP compliance period including their capacity and location (by county) in PSE's service area. The largest single distributed solar resource PSE expects during this CEIP compliance period is new net metering solar projects (59 MW in 2024 and 2025). To facilitate this resource addition, PSE includes its plan to update its Net Metering tariff (Schedule 150) to allow more customers to connect to its system than currently required by law.[32] Staff highlights the cost and equity concerns regarding PSE's Net Metering plans and forthcoming tariff, as described below.

Net Metering

Staff understands that PSE is required to offer Net Metering (as are all electric utilities in Washington) until "the cumulative generating capacity of net metering systems equals four percent of the utility's peak demand during 1996."[33] However, Staff is concerned about PSE's proposed path forward for two main reasons.

1. First, analysis from Lawrence Berkely National Lab shows that residential solar adoption in the state – which mostly occurred under the current Net Metering law – has largely benefited wealthier Washingtonians.[34] Residential rooftop solar systems typically cost tens of thousands of dollars which puts them out of reach for most customers, even if their homes happen to be situated in a location and an orientation to take advantage of the sun. Recent analysis from the consulting group E3 showed a poor record for Net Metering programs in Washington on a cost-effectiveness basis, including in PSE's service area where they found the Net Metering program had a ratio of 0.60 (societal

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[31] Revised Biennial Update at 5.17.

[32] *See* 80.60 RCW.

[33] RCW 80.60.020(1)(a).

[34] *Solar Demographics Trends and Analysis*, Lawrence Berkely Lab, 2023.

perspective) or 0.34 (ratepayer perspective).[35] Based on PSE's narrative on Net Metering in this Biennial Update, Staff sees little reason to believe that expanding PSE's Schedule 150 would result in a more equitable distribution of these benefits than it has thus far.

2. Second, energy from Net Metering systems is expensive. PSE's most recent Schedule 91 filing shows that avoided energy, capacity, and transmission and distribution costs can justify paying small solar power producers about $47 per MWh, and small wind power producers about $50 per MWh.[36] Current retail rates for PSE's residential customers – the same rates at which Net Metering Customers are compensated – are between about $90 to $110 per MWh.[37] This means that PSE pays roughly two times as much for energy produced by Net Metering customers as they would if it was only based on the Company's avoided costs. In sum, Net Metering customers are compensated at retail rate, which is *very generous* compared to most resources.

Prior to this filing – and PSE's pending Net Metering tariff update[38] – the Commission did not need to weigh in on the prudency of this program as statute required it. Now that PSE is proposing to continue this program beyond what statute requires, Staff believes it will be incumbent upon the Company to justify its approach to Net Metering moving forward, including both the *equity implications* and the *prudency* of associated costs. To be clear, prudency is not at issue in the current case. Staff intends only to raise this as a potential concern that will warrant consideration when a prudency determination is appropriate.

PSE mentions that it is engaging in statewide efforts that will aid in "developing a more equitable successor tariff to Schedule 150," but does not propose such equity-focused updates to its Net Metering program in this Biennial Update, nor its recent Schedule 150 tariff filing.[39] Staff does not appreciate the position PSE puts Commission Staff in. PSE has known about the 4 percent threshold since at least 2019 when that statute was last updated. Despite the statewide efforts PSE notes in this Biennial Update, the fact that they have not borne fruit does not necessitate an extension – beyond what is required by statute – of the regressive outcomes of the current Net Metering regime. **At the very least, Staff believes this issue warrants more discussion with PSE's advisory groups and other interested persons. Staff looks forward to these further discussions regarding Net Metering and Schedule 150 equity and cost implications.**

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[35] *Benefits and Costs of Net Energy Metering in Washington*, E3, Dec. 21, 2023.

[36] *See* Docket UE-230880, tables on Sheet 91-B and 91-C (Oct. 26, 2023).

[37] PSE Tariff Schedule 007 – Residential Service.

[38] *See* Docket UE-231031.

[39] Biennial Update at 5.27.

Distribution of Resources and Benefits

PSE describes the distributed solar and distributed storage projects that it anticipates bringing online in the remainder of this CEIP compliance period. Staff sees tangible benefits to customers participating in some of the Company's programs including direct ownership and bill savings from the rent-to-own solar program, direct bill reductions for income-eligible participants in community solar projects, and direct ownership of renewable energy and bill savings for community-based organizations receiving Green Power Solar Grants.

However, to Staff, it seems less certain that the benefits of some other resources will accrue to communities in which they are sited. For example, PSE notes that it is planning to site one-third of the capacity (MW) of its distributed battery storage facilities in Highly Impacted Communities.[40] The Company points to certain statutory labor requirements that preference "Small, Minority, Women-owned Business Enterprises" in the construction phase, as well as the tax revenue the projects would contribute to the local area throughout the projects' operations. While these *may* benefit the community in which the projects are sited, the connection between the benefit and the customer is more tenuous than for some of the other distributed programs mentioned above. Staff understands these projects to be primarily driven by system-level needs and does not necessarily see how the siting of these projects in Named Communities benefits those communities directly. Similarly, distributed solar projects sited in Named Communities *may* benefit local customers, but that link is not as obvious to Staff as it is for some of the other solar programs (like those listed above).

The energy industry has a history of siting energy projects in historically disadvantaged communities and even though the storage and solar resources PSE is currently contemplating do not have direct emissions that would harm nearby residents, Staff urges the Company to validate its assumption that these resources result in a net positive impact on communities in which they are sited and provide evidence supporting its analysis in the 2025 CEIP.

Incremental Costs

In this filing, PSE includes in Appendix E the "forecasted costs outside of the AURORA model for complying with CETA," including energy efficiency, demand response, DER enabling and grid modernization, communications and customer education, monitoring, and reporting, and DER solar and storage. Staff views this appendix as helpful in outlining what costs PSE anticipates incurring in this CEIP period. However, Staff received mixed messages about what the contents of this workbook are meant to represent. The plain language in the workbook's "Outline and notes" tab seems to describe a workbook meant to convey PSE's anticipated

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[40] Biennial Update at 5.35.

Incremental Cost, but when Staff asked about specific costs and how PSE determined whether they were incremental to complying with CETA, PSE's response indicated that at least some of the costs in this workbook are total costs and do not represent the incremental portion of those costs. **For this reason, while Staff appreciates PSE being transparent about the costs associated with the actions in this CEIP period, we do not find it particularly helpful as a tool to understand the Incremental Cost of complying with CETA in this CEIP period. Staff recommends that in future CEIP and Biennial CEIP Update filings, PSE be clear about which of these costs the Company believes are incremental to complying with CETA.**

Public Participation

Commission rules for Biennial CEIP Updates include fewer requirements than those for full CEIPs, but WAC 480-100-655(1) outlines a series of public participation requirements that apply to both CEIPs and Biennial Updates. PSE held meetings with its Equity Advisory Group (EAG) in the development of the 2021 CEIP and this 2023 Biennial Update. The Company documents these and other advisory group meetings in Appendix C of this filing. The Company also engaged in significant outreach efforts directly into Named Communities including through two "equity forums" hosted in Mount Vernon and Renton in September 2023, among other efforts that PSE outlines in Chapter 4 of the Biennial Update.

Staff appreciates the significant efforts that PSE made to engage with customers from Vulnerable Populations and Highly Impacted Communities (and organizations that directly serve them) and sees this work as critical to making progress in CETA's equity-related mandates.

With that said, Staff believes that there is still room for improvement. While PSE does provide a summary of feedback and the Company's responses in its advisory group meeting "feedback reports," it is not always clear how the feedback did or did not impact the final Biennial Update.[41] This is, admittedly, easier to delineate when the feedback is directed towards a draft filing and changes in the final filing are apparent. But even in a filing without a draft, those providing feedback may not find it worthwhile if there is no indication of their feedback having a tangible impact on the Company's plans and actions.

Staff believes that public participation is especially important for DERs that are at the heart of distributional equity and delivering benefits to Named Communities. PSE's primary advisory group for these resources is its Conservation Resources Advisory Group (CRAG), which now is charged with addressing distributed solar, distributed storage, demand response, and other DERs in addition to its historical purview of energy efficiency resources. However, this group remains a closed advisory group, meaning only the members of the CRAG are allowed to attend meetings. These closed meetings have been a catalyst for frank and open discussions among CRAG members, but it sets this group apart from PSE's other advisory groups like the EAG and

[41] *See* WAC 480-100-655(1)(i), requiring utilities to include summaries of advisory group comments and the utility's responses, including "whether issues raised in the comments were addressed and incorporated into the final CEIP."

IRP advisory groups whose meetings are open to public viewing and input. **Considering CETA's clear public participation requirements, Staff encourages the Company to explore additional, inclusive methods and how the public can participate in discussions around DERs (including energy efficiency), such that the methods comply with the Commission's public participation rules.**[42]

Other Conditions

In its Final Order 08 on PSE's 2021 CEIP, the Commission included <u>32 distinct conditions</u> of approval that PSE must address. Due to the number of conditions, Staff does not discuss every condition in this section. Instead, we highlight several of them – especially where Staff's review uncovered concerns and/or warranted timely feedback. Staff reiterates that we reserve our final recommendations for the forthcoming Open Meeting process.

Conditions 9 and 10

These conditions required PSE to take action and further adjust its Vulnerable Population methodology which, broadly, involved including specific factors in its definition of Vulnerable Populations, and better accounting for interactions between different (and similar) vulnerability factors. PSE notes that its approach to Condition 9 varied to some degree from the approach described in Order 08. The Company explains that this was because following the language of the condition explicitly led to nearly *all census block groups* in PSE's service area being designated as "high vulnerability."[43] Staff agrees that this is likely not the intended outcome of this condition and believes PSE's new approach may represent a reasonable path forward. However, we encourage the Company to work collaboratively with its EAG and other interested persons between now and the 2025 CEIP to ensure that this approach to identifying Vulnerable Populations aligns with members' expectations and relevant lived experiences.

Condition 20

The Commission required PSE to implement its DER solar, DER storage, DR, and energy efficiency programs to deliver at least 30 percent of energy benefits to Named Communities. It also required the Company to establish a minimum designation of energy benefits to "customers and communities in deepest need within the broader category of Named Communities."[44]

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[42] *See* WAC 480-100-655(1)(c).

[43] Biennial Update at 3.9.

[44] Order 08 at 75.

Table 4 - Minimum Designations and DER Tranches[45]

<table>
<tr><th colspan="2"></th><th>Total</th><th>HIC</th><th>VP High</th><th>Deepest Need</th></tr>
<tr><td colspan="2">Elec. PSE Customers</td><td>1,065,508</td><td>283,000</td><td>342,000</td><td>68,000</td></tr>
<tr><td colspan="2">Percent</td><td>100%</td><td>27%</td><td>33%</td><td>6%</td></tr>
<tr><td colspan="2">Minimum designation</td><td></td><td colspan="2">30%</td><td>2.5%</td></tr>
<tr><td rowspan="4">Tranche</td><td>DER Solar</td><td>80 MW</td><td colspan="2">24 MW</td><td>2 MW</td></tr>
<tr><td>DER Storage</td><td>25 MW</td><td colspan="2">7.5 MW</td><td>0.6 MW</td></tr>
<tr><td>DR</td><td>86 MW</td><td colspan="2">25.8 MW</td><td>1.15 MW*</td></tr>
<tr><td>EE</td><td>397,620 MWh</td><td colspan="2">104,987 MWh*</td><td>3,727 MWh*</td></tr>
</table>

* These numbers do not exactly match the minimum designations due to PSE calculating them based on a subset of their respective tranche's overall target – often only applying it to residential customers. In the case of energy efficiency, PSE further filtered the "deepest need" minimum designation to apply only to EE programs for existing buildings.

Staff commends PSE for quickly taking steps to develop a definition for "deepest need" with input from its EAG, Low-income Advisory Group (LIAC), CRAG, and other interested persons. It is clear in the Company's Biennial Update that this is new work and there is uncertainty around the implementation of these minimum designations – especially for customers in "deepest need."

Staff appreciates PSE's acknowledgement that joint advisory group members expressed a desire for the "deepest need" minimum designation to "mirror the percentage of the population in deepest need."[46] Staff notes that the 30 percent minimum designation requires the Company to deliver energy benefits that are at least in line with Named Communities' share of the general population in PSE's service area. However, in the case of the "deepest need" minimum designation, PSE's proposal would entail delivering less than half of that population's proportional share of the energy benefits of these DER programs. While Staff understands that the definition of "deepest need" – let alone designing programs to target this community – is very new, we do have some discomfort around the prospect of PSE setting a minimum designation that could be viewed as explicitly entrenching inequities for those in deepest need. The Company notes that it "aspires to have the energy benefits match the percentage of communities and customers in deepest need" but that it will take time.[47] Staff looks forward to further discussion on this topic.

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[45] Adapted from Biennial Update Tables 3.1 and 3.5.

[46] Revised Biennial Update at 3.23.

[47] Revised Biennial Update at 3.23.

Condition 23

The Commission required PSE to, "include a narrative in the 2023 Biennial CEIP update and 2025 CEIP describing anticipated impacts on customer benefits and burdens from DR programs."[48] PSE did include some description in this filing of enhanced incentives for customers in Named Communities and "reliability-focused" customers, but Staff hopes to see more in the 2025 CEIP. One area where Staff especially hopes to see more narrative, and accounting is in the burdens related to DR participation. One of PSE's CBI metrics is participation in DR programs, but Staff notes that (1) what participation means in DR programs varies significantly across the different program types, and (2) what benefits or burdens participation confers to participants varies significantly across different DR programs and more broadly across different DERs.

On the first point, Staff suggests that participation in a smart thermostat-enabled DR program (as an example), may be relatively straightforward to measure (actively enrolling in a program or allowing PSE to change a thermostat's set point versus opting out of a DR event). On the other hand, participation in a non-incentivized opt-out behavioral demand response program may be much harder to understand. Staff does not believe that passively receiving an email or text message notification of an upcoming DR event constitutes meaningful "participation" in a DR program absent any signal that the customer actually *took action* with that information to reduce their load.

On the second point, participating in a DR program *may* confer benefits to participants (participant incentive payments, for example), but there are also burdens to these participants that PSE should be careful to account for. DR programs are – in essence – asking customers to adjust their energy usage for the benefit of the larger grid. In some programs, this adjustment may be negligibly inconvenient for a participant, but in others, the participant may need to weigh their home comfort (smart thermostat-enabled DR) or resilience (residential battery DR) against an incentive payment from PSE.

Given the above dynamics at play in DR programs, Staff encourages PSE to continue its work to comply with Condition 23 in its 2025 CEIP, especially as it relates to understanding and accounting for the burdens the Company may be implicitly asking its DR participants to take on. This is especially important in the context of programs targeted to Named Communities, where CETA specifically calls for the "reduction of burdens to vulnerable populations and highly impacted communities."[49]

[48] Order 08 at 80.

[49] RCW 19.405.010(6), RCW 19.405.040(8), RCW 19.405.060.

Conditions 30 and 31

These conditions required PSE to remove certain costs from its projected incremental cost of compliance with CETA. In Appendix E, PSE shows that it removed the individual line items identified in Condition 30 from its incremental cost calculation.

In its order approving PSE's 2021 CEIP with conditions, the Commission describes the criteria for determining whether a cost is "directly attributable" to CETA.[50] While Staff does not believe it is appropriate to recommend a final determination on whether the costs outlined in this Biennial CEIP Update are incremental, we do urge the Company to reflect on these criteria and be prepared to explain why the costs it considers "directly attributable" to CETA meet them. Staff notes the updates to statutory language which now includes equity in the Commission's consideration of the public interest, a standard not tied directly to CETA.[51]

Condition 31 also required PSE to "explain in the 2023 Biennial CEIP Update how it derived its Communications and Education costs, what the Communications and Education actions specifically entail, and demonstrate how these costs are directly attributable to specific actions that are necessary to comply with or make progress toward CETA requirements." Staff notes that while PSE describes in the Biennial Update its plans to educate customers on various programs or topics, we believe a more direct response to the second part of this condition is needed to fully comply.

Staff looks forward to reviewing in greater detail the costs PSE claims are incremental to CETA in the Company's compliance filing for its first CEIP implementation period in 2026.

Condition 32

In this condition, the Commission required PSE to "rerun its portfolio optimization models with an updated methodology for incorporating the Social Cost of Greenhouse Gas Emissions [SCGHG] and updated capacity values for energy storage." The condition also states, "PSE will recalculate its interim clean energy targets and energy storage sub-target, and its projected incremental cost of compliance with CETA, based on these new model runs."[52]

PSE describes in Chapter 2 and Appendix A-1 how it complied with the first portion of this condition. The Company opted to model the SCGHG in dispatch in addition to producing modeling runs that applied the SCGHG as an externality cost for emitting resources. In both modeling runs, updated effective load carrying capacity (ELCC) values were used for storage and other resources, in line with those used in PSE's 2023 IRP Progress Report.

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[50] Order 08 at 93.

[51] RCW 80.28.425(1).

[52] Order 08 at 99.

However, Staff notes that PSE's modeling approach could not realistically be expected to result in updated Interim Targets or an updated energy storage sub-target in the current CEIP period (2022-2025). These targets – as approved in the 2021 CEIP – were based on the generic resources PSE included in its 2021 IRP and 2021 CEIP. In this 2023 Biennial Update, PSE used its 2023 IRP Progress Report model as a starting point, but did not allow the model to select generic resources during the remainder of the current CEIP timeframe (2024-2025).[53] This meant that the updated ELCC values and changes to the SCGHG treatment for these generic resources could not have had any impact on the Company's existing targets for the current CEIP period. While this does not appear to be the approach the Commission envisioned PSE taking in response to Condition 32, Staff understands that there are practical limitations that likely preclude some long lead-time resources (outside of current procurement processes) from consideration in the remaining two years of this compliance period.[54] Staff recommends PSE discuss with its Resource Planning Advisory Group (RPAG) how to approach the modeling of SCGHG for its 2025 IRP.

Conclusion

After reviewing the comments filed by other parties in this matter, Staff intends to present its *final recommendations* regarding the targets and Biennial CEIP Update, through the process outlined in Commission rules, which includes an open public meeting.[55]

In these comments, Staff has identified issues with PSE's proposed Interim Target and other topics, and looks forward to discussions with the Company, and other interested persons before the public meeting. While Staff does not offer any specific conditions in this document, we remain open to working with other persons or parties if a limited number of new conditions or revisions to existing conditions are warranted for approval of this plan.

For questions about Staff's comments, please contact Joel Nightingale at joel.nightingale@utc.wa.gov or 360-664-1154.

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[53] Revised Biennial Update, Appendix A-1, Figure A-1.1.

[54] PSE notes that some of the resources resulting from PSE's *current* procurement processes are already at risk of not coming online until late in this CEIP compliance period, or early in the next compliance period. *See* Revised Biennial Update at 2.13.

[55] WAC 480-100-645.