



Puget Sound Energy  
P.O. Box 97034  
Bellevue, WA 98009-9734  
[pse.com](http://pse.com)

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Jeff Killip, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
621 Woodland Square Loop SE  
Lacey, Washington 98503

**Re: PSE's Comments Relating to Commission-led Workshop on the Inflation Reduction Act and Infrastructure Investment and Jobs Act; Docket U-240013**

Dear Director Killip,

On January 18, 2024, the Washington Utilities and Transportation Commission (Commission) issued a Notice scheduling a workshop to discuss how investor-owned utilities are researching, evaluating, and incorporating Inflation Reduction Act (IRA) and Infrastructure Investment and Jobs Act (IIJA) opportunities into planning processes, programs, and future filings. In the Notice, the Commission also invited comments on a series of questions that will serve as a foundation for the workshop. Puget Sound Energy (PSE) respectfully submits the following responses to the Notice questions.

**1. What is the utility's current evaluation process for IRA/IIJA opportunities? Who in the utility is responsible?**

PSE seeks to leverage funding opportunities that are available through state and federal programs that can accelerate efforts to reduce carbon emissions, as well as reduce the costs associated with the transition to clean energy and improve affordability for customers. PSE is actively tracking, evaluating, and applying for newly emerging funding opportunities tied to the IIJA and IRA, as well as other state and federal funding opportunities, such as Washington State's Clean Energy Fund and the U.S. Department of Energy's (DOE) Loan Programs Office Title 17 Clean Energy Financing Program.

PSE maintains an inventory of projects that align with potential opportunities to secure future public funds. PSE subject matter experts evaluate this inventory of opportunities, and when opportunities for public funds become available, the subject matter experts compare projects to the funding type, assess eligibility requirements, and determine if one or more projects is a good candidate for the funding opportunity. The list of opportunities selected to pursue is reviewed and approved by PSE management regularly.

In early 2023, PSE implemented an internal process to track, evaluate, and report on public funding opportunities (grants, tax credits, loans) as they become available. In general, these opportunities fall into three main categories:

- **Direct Funding Opportunities** – Direct funding opportunities are opportunities that directly enable PSE’s clean energy strategy and goals and where PSE would be the main recipient of the funds.
- **Strategic Partnership Opportunities** – Strategic partnership opportunities are opportunities where PSE is not the main recipient but can help drive funding to strategic partners (e.g., tribes, municipalities, industry, academia, etc.) that complement or accelerate PSE’s clean energy strategy and goals.
- **Customer Education and Engagement Opportunities** – Customer education and engagement opportunities are opportunities for funding made available through state and federal programs that can help PSE customers decarbonize or lower their energy costs.

Through this identification and evaluation framework, PSE hopes to create a consistent and efficient system for managing public funding opportunities that can benefit PSE customers.

**2. Recent resources and draft IRS guidance have been provided (although still in the comment period); does the company believe there is adequate guidance to move forward?**

PSE believes there is sufficient guidance for projects to begin moving forward. However, the IRS and the Department of the Treasury must still provide additional guidance and clarify certain aspects of guidance that has been issued so that utilities can ensure sufficient documentation in the event of an audit. The IRS has not yet issued guidance on the tax normalization rules for Investments Tax Credits that are transferred. Draft rules regarding “domestic content” (one of the three tiers of bonus credits introduced by the IRA) are also problematic and may significantly limit which products will qualify for the incentive due to onerous and unclear definitions and proposed recordkeeping requirements.

Regarding proposed rules issued by the Department of the Treasury with respect to the Sec. 45V Hydrogen Production Tax Credit, PSE has drafted comments for the IRS on the proposed rule and has participated in comment development by our trade associations and other aligned interests regarding electrolytic hydrogen production. PSE’s comments will reflect those of an interested purchaser/end-user of hydrogen, and of a regulated utility (i.e., attempting to acquire renewable and non-emitting resources to meet Clean Energy Transformation Act compliance requirements equitably).

**3. What resources are you currently utilizing or relying on?**

As noted above, PSE has created a funding evaluation framework that relies primarily on internal expertise from subject matter experts across the Company. However, PSE has also engaged external consultants to help evaluate a wide range of funding opportunities and develop strategies for individual funding applications. As discussed further below in response to question six, PSE also routinely engages with industry trade associations, including the Edison Electric Institute, peer utilities, and other organizations to identify opportunities and collaborate regionally, as appropriate.

#### **4. What opportunities are you currently pursuing?**

For opportunities arising under the IJJA, PSE initially assessed the general grant descriptions that were available in early 2022 and the then-available scoring criteria that had been released by the U.S. DOE. Based on this information, PSE decided to move forward with grant applications in four areas: Grid Flexibility, Grid Resilience, Hydroelectric Incentives Funding, and Hydrogen Hub.

In July 2022, PSE engaged external consultants to provide support in the development of applications for a Smart Grid Grant (BIL section 40107) and Grid Resilience Grant (BIL section 40101(c)) under the Funding Opportunity Announcement titled “Grid Resilience and Innovation Partnerships Program” (GRIP). On December 16, 2022, PSE submitted concept papers for both grants. The U.S. DOE responded on February 2, 2023, with letters of encouragement for PSE to submit full applications for both grants.

On March 16, 2023, PSE submitted a Smart Grid grant application for the maximum possible award of \$50 million. The portfolio of projects included in the proposal would have helped PSE implement smart grid technologies to modernize PSE’s transmission and distribution grid by adding flexibility, intelligence, and responsive system attributes. PSE planned to channel over 50 percent of Smart Grid project investments into disadvantaged communities, highly impacted communities, and vulnerable populations.

On April 6, 2023, PSE also submitted a Grid Resilience grant application for the maximum possible award of \$100 million. The portfolio of projects included would have helped improve reliability of distribution circuits that have experienced higher frequency or duration of service disruption than the threshold Customer Minutes Interrupted metric. In addition, the projects would have engaged in the proactive underground conversion of overhead lines to mitigate reliability concerns and improve resilience of PSE assets in high wildfire risk areas. PSE planned to channel about 44 percent of Grid Resilience project investments into disadvantaged communities, highly impacted communities, and vulnerable populations.

The competition for the GRIP grants was substantial, with over 700 applications received for Round 1 funding opportunities. The U.S. DOE released the list of 58 winning applications for the first round of grants on October 18, 2023. Unfortunately, neither of PSE’s proposals was among those selected in this initial round; however, there are two additional rounds of funding expected for similar grants, and PSE intends to pursue these opportunities.

For GRIP Round 2 funding opportunities, PSE has submitted one concept paper as the primary applicant and joined four partnership opportunities seeking funds in Topic Area 1 (resilience funding) and Topic Area 2 (smart grid funding). Broadly, these funding opportunities are focused on resiliency, wildfire and all-hazards threat mitigation, data integration and predictability improvement, transmission capacity upgrades, and new technology deployment including microgrid and vehicle-to-grid concepts all while delivering substantial benefits to disadvantaged communities that are underserved and overburdened by pollution, as defined by the federal Justice40 initiative. These concept papers and subsequent applications are being

developed in consortium with regional utility peers including Avista and Portland General Electric, Lawrence Berkeley and Pacific Northwest National Laboratories, and technology partners including GridForward, among many others.

In terms of next steps, feedback from the DOE on the concept papers is expected in the coming weeks, while full GRIP Round 2 applications are due in mid-April. PSE subject matter expert teams are working diligently to compile the necessary data and develop compelling applications that meet both PSE's clean energy and resiliency objectives and the objectives of the DOE under the GRIP funding opportunities.

Since 2014, PSE has also applied for, and been awarded, incentive payments under the hydroelectric incentive program under Section 242 of the Energy Policy Act of 2005 for new generation sources developed on existing dams (the "242 Program"). The 242 Program is among the suite of hydroelectric incentives that received new or increased funding under the IIJA. The increase in funding for this program has greatly helped PSE, which received two incentive payments (for calendar years 2021 and 2022) for hydropower generated from the Lower Baker Unit 4. Specifically, the U.S. DOE determined that PSE was eligible for payment on 38,211,401 kilowatt-hours (kWh) generated by Lower Baker Unit 4 in each of calendar years 2021 and 2022. At the rate of \$0.02617/kWh, the U.S. DOE determined that PSE's final incentive payment for power generated during calendar years 2021 and 2022 was \$1,000,000 and \$1,000,000, respectively. This amount represented an increase from incentive payments received by PSE in prior years. These benefits offset the operating budgets of the plant.

##### **5. How does your utility intend to maximize the benefits of the IRA/IIJA for its customers and system?**

PSE continues to identify and evaluate funding opportunities for which a utility could receive direct funding and grant opportunities, be a strategic partner, or be a sub-grantee. PSE is also ensuring that its planning processes consider the approximately \$370 billion in renewable energy investment tax credits and advanced energy economy support that the IRA will provide. These tax credits will make the development and acquisition of renewable and non-emitting electric generation resources more affordable for PSE and its customers. When PSE develops and builds its own renewable energy resources, PSE's customers own and derive the long-term benefit of those resources. Accordingly, PSE's customers receive the full benefit of the investment tax credits, receive the credit for generating and using the renewable energy resource, and receive the benefit of lower rates when excess renewable energy can be marketed to other areas.

In addition, PSE also continues to apply for grants through the State's Clean Energy Fund. PSE applied for, and was awarded, a \$200,000 grid modernization grant to perform a feasibility study evaluating the use of storage and other technologies to increase distribution system hosting capacity in the Kittitas County region. This project enables PSE to provide an opportunity for more customer solar adoption. PSE also applied for a \$1 million grant to pursue a metal hydride hydrogen storage pilot that would enable PSE to test a hydrogen storage option that can be deployed safely.

**6. Are you collaborating with other utilities (in WA or national) or organizations?**

Yes, PSE is actively collaborating with peer utilities, and this collaboration has produced notable success, particularly regarding the Pacific Northwest Hydrogen Association (PNWH2) Hydrogen Hub. And as noted in response to question four, PSE is actively working with a coalition of regional utility, national laboratory, and technology partners to pursue IJJA applications focused on resiliency, wildfire and all-hazards threat mitigation, and new technology deployment, among other themes.

PSE is also working closely to support community partners and state agencies to help them pursue funding opportunities from the IJJA and the IRA for which they may be eligible. Notably, PSE has provided technical information and assistance, or letters of commitment or support to various community partners that have sought funding, including the following:

- La Conner School District – U.S. Environmental Protection Agency (EPA) Clean School Bus grant;
- Highline School District – U.S. EPA Clean School Bus grant;
- North Kitsap School District – U.S. EPA Clean School Bus grant;
- Issaquah School District – U.S. EPA Clean School Bus grant;
- Port Gamble S’Klallam Tribes – Energy Transitions Initiatives Partnership Project;
- Northwest Seaport Alliance – U.S. Department of Transportation’s Charging and Fueling Infrastructure Discretionary Grant Opportunity FY2022 and FY2023, for a project titled “Catalyzing Zero-Emission Drayage Trucking Infrastructure & Opportunities in the Seattle-Tacoma Region”;
- Sandia National Laboratories – U.S. DOE Office of Clean Energy Demonstrations’ “Collaborative Alignment for Critical Technology Industries” funding for a project titled “National Consortium for the Advancement of LDES Technologies”;
- King County Metro electrification;
- University of Washington-Bothell charging stations;
- Sound Transit’s Federal Transit Administration request;
- Washington Department of Commerce “Solar for All” application to the U.S. EPA;
- The Nisqually Indian Tribe’s “Solar for All” application to the U.S. EPA; and
- PSE signed a letter of support as a member company of the Electric Utilities of the West Coast Transit Corridor Initiative (WCCTCI) to support the application of the states of California, Oregon, and Washington to the U.S. Department of Transportation’s Charging

and Fueling Infrastructure Discretionary Grant Opportunity FY2022 and FY2023 for the West Coast Truck Charging and Fueling Corridor Project.

In addition, PSE responded to numerous requests for information (RFIs) issued by the U.S. DOE over the course of the IJA implementation. Those comments addressed questions posed by the DOE regarding implementation of the GRIP grant program, the suite of hydropower incentives, and a RFI issued by the Washington State Department of Commerce (Commerce) in September of 2023 to officially gather recommendations and insights from market participants and stakeholders regarding 24 energy programs that use IJA and/or IRA and other funds. PSE responded to this RFI to provide Commerce with advice on co-deployment with PSE programs and program priorities, where appropriate. PSE will continue to work with Commerce to provide market and program insights and expertise and expects funds to begin flowing in mid-to-late 2024, according to Commerce-communicated timelines.

PSE is also a member of PNWH2, a consortium of public and private entities spanning Washington, Oregon, and Montana working together to bring clean hydrogen power solutions that leverage the region's vast renewable energy resources to market. On April 7, 2023, PNWH2 submitted a grant application to secure funding for a regional clean hydrogen hub. PSE is one of 17 companies that has projects proposed as part of the hub. PSE's project is centered on using hydrogen for peak power generation to help maintain a clean, reliable grid.

On October 13, 2023, the U.S. DOE selected PNWH2 for award negotiations following a competitive nationwide process. The PNWH2 Hub is eligible to receive up to \$1 billion in federal funding over four development phases spanning nine years. The Hub's projects will drive economic opportunity across all demographics, creating or supporting more than 10,000 good-paying jobs and stronger energy security to improve the lives and futures of people throughout the region. The Hub's vision and projects were developed with leadership from Tribes, unions, industry, and many others and will help deliver a shared vision of clean energy and equitable energy systems in the Pacific Northwest.

Additionally, PSE is partnering with peer utilities to coordinate IRA rebate deployment with utility conservation programs with a focus on conservation program impacts, customer engagement and privacy, and funding efficiency between utility programs and IRA programs. PSE and our peers aim to provide streamlined customer experiences that leverage multiple funding sources. PSE has been an active participant with Commerce in their public and utility facing forums around the topic, including workshop participation, public listening session participation, and several formal comment opportunities.

**7. How/Are you building these opportunities into the 2025 Integrated Resource Plan (IRP) or next Clean Energy Implementation Plan (CEIP)?**

There are three categories where the IRA will be applied in PSE's 2025 IRP processes. First is with regard to supply-side resources. For this area, PSE is working with consultants to estimate the impact of the IRA on the cost of different generation resources and fuel supply, including resources like renewable natural gas and green hydrogen. Second, PSE will reflect IRA incentives for demand-side resources when such incentives may impact customer decisions. This will certainly apply to gas-electrification analyses, where the IRA's incentives may influence customer decisions to electrify gas end-uses. Finally, PSE is also incorporating the impacts of incentives available through the IJJA and IRA on electric vehicle (EV) adoption in the EV forecast, which is a component of the demand forecast that informs the IRP. To maintain consistency, PSE will use the same modeling assumptions discussed above in the next CEIP.

**8. Have you considered how these opportunities can help offset utility customer costs embedded in rates for energy justice and reducing energy burden/insecurity?**

Yes, per one of the conditions from the Commission's Order 24/10 approving PSE's 2022 general rate case settlement in Docket UE-220066, PSE must demonstrate all offsetting benefits received or for which it has applied through the IJJA and the IRA when seeking review and recovery of capital investment and power costs. At the time, the Commission's order recognized that the impacts of these laws on rates were not yet known, but it was apparent that they could affect PSE's operations during the multiyear rate plan. Consistent with the Commission's order, PSE's reporting with respect to the recovery of its capital investments and power costs must include all funding, tax benefits, or any other benefit for which PSE has and has not applied and, if it has not, the reasons justifying the decision to not pursue IRA and IJJA funding options.

In addition, each application that PSE has pursued under the IJJA required the development of detailed community benefit plans. In selecting projects to include in these applications, PSE considered the location of projects and how to benefit disadvantaged communities, as defined by the Justice40 Initiative. PSE also shared the IJJA Round 1 project proposals submitted for funding with PSE's Equity Advisory Group (EAG) to receive feedback on the approach. PSE incorporated the suggestions of the EAG into the final applications. The EAG also submitted letters of support for PSE's grant applications.

**9. What barriers remain to pursuing/successfully obtaining these opportunities?**

There are numerous challenges that may impact or influence the benefits that PSE and its customers realize under these programs. First, securing funding that is made available through competitive grant programs is indeed competitive; there are numerous utilities and other organizations seeking finite funding resources. PSE has sought the counsel of customers, peer utilities, and consultants, and is appropriately balancing resources and funding opportunities to maximize customer benefits in order to best position our proposals for funding success.

However, there is no guarantee that PSE will secure an award whether as a primary applicant or in partnership with others.

Opportunities arising under the IRA present slightly different challenges. The exact nature of IRA rebate programs is still being defined and vetted. As a result, PSE and others cannot yet be certain how customer programs will work, especially if there are several entities involved in a single “upgrade” or customer experience (i.e., Commerce, distributors, multiple utilities, contractors, other third parties). Many IRA opportunities also require a customer to lead the request, which presents challenges or barriers in terms of awareness and customer participation.

One further potential barrier to IRA rebate program implementation is the data sharing requirements outlined by DOE, which Commerce is exploring and refining further. There are unknowns in the costs associated with expectations set forth by Commerce and how those requirements will interact with the customer information and data disclosure requirements in WAC 480-100-153. The costs relate to the need for PSE and other utilities to implement new processes and methods for data sharing of customer energy usage, if required by Commerce. Additionally, any change in the current capabilities for data access and sharing will require time to implement and may impact deployment of IRA rebate programs.

With respect to tax credits, Treasury guidance on outstanding items such as Sec. 45V hydrogen tax credits may pose a significant barrier to the economic viability of an electrolytic hydrogen hub in Washington State. PSE is part of the winning PNWH2, and views clean hydrogen as a key technology to decarbonize multiple industrial sectors, including peak power generation. If the proposed rules for the application of the 45V tax credits are finalized as written, there will be significant economic challenges to projects in the hub, imperiling the nascent hydrogen economy in Washington and jeopardizing PSE’s ability to access clean hydrogen in sufficient quantities and at acceptable price points.

**10. Does the utility believe the Energy Infrastructure Reinvestment (EIR) loan program is a viable option? Please be prepared to provide the rationale for your response.**

PSE is assessing the applicability of the U.S. DOE Loan Programs Office Title 17 Clean Energy Financing Program for funding planned projects. Under this program, the Loan Programs Office can provide federal financing for projects located in the United States that support clean energy deployment and energy infrastructure reinvestment to reduce greenhouse gas emissions and air pollution. PSE is currently reviewing program and project eligibility requirements to determine if one or more projects are a good candidate for this funding opportunity. As part of this evaluation, PSE is in conversations with the Loan Programs Office regarding project funding applicability.

Due to the complexity of the Title 17 Clean Energy Financing Program requirements, however, it will take some time to understand if this is a viable solution for low-cost funding for the Company and our customers. If PSE has eligible projects, according to the Loan Programs Office, the application process through conditional commitment commonly takes up to a year.



**11. Do you believe the utilities can claim savings that result from federal rebates?**

PSE can claim conservation savings if the installed equipment aligns with PSE measures based on approved conservation plans. For example, if a customer boosts their home efficiency with better insulation and air sealing, those upgrades align with existing PSE savings methodology. However, under the current statutory and regulatory framework in Washington, natural gas utilities cannot claim gas conservation savings for customers switching from natural gas to electric equipment. Utilities could potentially explore methods to quantify any fuel switching that the utility supported, but these “savings” would not count towards a utility’s natural gas conservation targets specifically.

**12. How should utilities treat federal rebates and tax credits in cost-effectiveness calculations?**

Generally, an infusion of federal or state funds adds a benefit to (or reduces the cost of) any measure undertaken by the utility or its customers. It should not matter whether the funds are used in conservation, electrification, or other types of measures; what matters is the type of test used and who receives the funding. For example, if the funding goes directly to the customer (as rebates or tax credits), the Utility Cost test would not be affected but the Participant Cost test would. The Total Resource Cost test as it applies in Washington State should include the funding, as it covers the perspective of both the customer and the utility.

PSE believes that the way Washington’s modified TRC applies to conservation, it is appropriate to regard federal rebates as reductions in the measure cost. Unlike utility incentives, which net out of the TRC as a transfer from the utility to the customer, federal and state incentives come from sources outside of either the customer or the utility. Since IRA funds are designed to incentivize specific types of conservation measures, they effectively reduce the overall measure cost, which in practice results in a higher TRC score.

Incorporating the rebates into the TRC calculation raises numerous challenges, however. Tax rebates are sought by customers after the conservation measures are complete, and the utility has no insight into whether the customers took advantage of them. We do not yet know how federal rebates will be disbursed in Washington, so we cannot say how exactly they may be accounted for in the TRC calculation. Therefore, PSE believes that in theory, federal rebates should affect the TRC score, but in practice utilities may not have the information necessary to incorporate them into their cost-effectiveness tests in an accurate way.

**13. Some of the federal incentives focus on fuel-switching. How do utilities account for these savings when it comes to the EIA targets?**

In general, gas-to-electric fuel conversion will negatively impact future natural gas savings potential and, depending on the utility, potentially increase future electric savings potential (if space and water heating equipment transition to electric alternatives). However, PSE notes that the EIA governs only electric conservation, not natural gas. As noted above in response to question 11, any natural gas reduction benefit from fuel switching (whether incentivized by the federal programs or not) cannot be claimed as savings for PSE’s natural gas

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conservation programs; fuel switching does not meet the current definition of conservation in statute and rule. For this reason, PSE does not offer conservation incentives today for this type of upgrade.

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PSE appreciates the opportunity to submit these comments. Please contact John Mannetti, Director, Customer Energy Innovation, at (425) 424-7479 or [John.Mannetti@pse.com](mailto:John.Mannetti@pse.com) for additional information about this filing. If you have any other questions, please contact me at (425) 462-3051.

Sincerely,

*/s/ Wendy Gerlitz*

Wendy Gerlitz  
Manager, Regulatory Policy  
Puget Sound Energy  
PO Box 97034, BEL10W  
Bellevue, WA 98009-9734  
425-462-3051  
[Wendy.Gerlitz@pse.com](mailto:Wendy.Gerlitz@pse.com)

cc: Tad O'Neill, Public Counsel