**Exh. WF-1T**
**Dockets UE-240004,**
**UG-240005, UE-230810**
**Witness: Wesley Franks**

**BEFORE THE WASHINGTON**
**UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**<br><br>**Complainant,**<br><br>**v.**<br><br>**PUGET SOUND ENERGY,**<br><br>**Respondent.** | **DOCKETS UE-240004, UG-240005 and UE-230810 (Consolidated)** |

**TESTIMONY OF**

**WESLEY FRANKS**

**STAFF OF**
**WASHINGTON UTILITIES AND**
**TRANSPORTATION COMMISSION**

***Equity in Decarbonization Planning, Decarbonization Rate Adjustment, CEIP Deferral***

**August 6, 2024**

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## LIST OF EXHIBITS

## I. INTRODUCTION

**Q. Please state your name and business address.**

A. My name is Wesley Franks, and my business address is 621 Woodland Square Loop SE, Lacey, Washington 98503. My business mailing address is P.O. Box 47250, Olympia, Washington 98504-7250. My email address is wesley.franks@utc.wa.gov.

**Q. By whom are you employed and in what capacity?**

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a regulatory analyst in the Energy Planning section of the Regulatory Services division.

**Q. Would you please state your educational and professional background?**

A. I began my role as a regulatory analyst in the Energy Planning Section at the Washington Utilities and Transportation Commission in 2023. Prior to this role I worked as an administrative and finance intern for King County, Washington, an environmental scientist for the California State Water Resources Control Board, and a grants analyst for the California Department of Food and Agriculture.

I am a graduate of the University of California at Santa Cruz, and I hold a Master of Public Administration from the Evans School of Public Policy and Governance at the University of Washington. My continued education includes trainings in conservation, demand-side management, and cost-effectiveness, as well as a certificate in Public Utilities Reports Guide's "Principles of Public Utilities Operations and Management."

**Q. Have you previously testified before the Commission?**

A. No.

## II. SCOPE AND SUMMARY OF TESTIMONY

**Q. What is the purpose and scope of your testimony?**

A. The purpose of my testimony is to assess how Puget Sound Energy (PSE or Company) is planning for equitable outcomes in its decarbonization activities, as required by the Clean Energy Transformation Act (CETA), the Climate Commitment Act (CCA), and the Decarbonization Act for Large Combination Utilities (DALCU). Specifically, my testimony discusses the need for PSE to conduct a distributional equity analysis (DEA) of its distributed solar portfolio and its targeted electrification pilots, as well as a cost burden analysis of natural gas infrastructure decommissioning to assist with long term planning. Additionally, my testimony assesses the Company's proposal to recover costs associated with decarbonization activities in a dedicated cost-recovery tracker and the Company's proposal to recover Clean Energy Implementation Plan (CEIP) deferral costs in the next general rate case (GRC).

**Q. Please summarize your recommendations.**

A. Staff recommends that the Commission order PSE to:

1. Conduct a DEA of the entirety of PSE's distributed solar portfolio, fulfilling the original Stipulation L in PSE's 2022 GRC settlement (Docket UE-220066). In conducting the DEA, the Company will consult best practices including, but not

limited to, those outlined in the U.S. Department of Energy's *Distributional Equity Analysis for Energy Efficiency and Other Distributed Energy Resources: A Practical Guide* (DEA Practical Guide).[1] The Company will also work closely with Staff, interested parties, and its advisory groups early and often to ensure that reasonable progress is made for completion of the DEA. PSE will file the findings, results, and any learnings from the DEA within this docket no later than January 31, 2027, and incorporate them into the Company's first Integrated Resource Plan (ISP).

2. Conduct a DEA on PSE's proposed targeted electrification pilot (TEP) Phase 2. In conducting the DEA, the Company will consult the best practice guidelines including, but not limited to, those outlined in the DEA Practical Guide. The Company will also work closely with Staff, interested parties, and its advisory groups early and often to ensure that reasonable progress is made for completion of the DEA. PSE will file the findings, results, and any learnings from the DEA within this docket no later than January 31, 2027, and incorporate them into the Company's first ISP.

3. Conduct a cost burden analysis on the effect of a range of future inputs and scenarios, including, but not limited to, changing customer counts, CCA compliance costs, and other relevant factors on forecasted rates for remaining natural gas customers, with consideration given to energy burden on named

[1] Franks, Exh. WF-2. *Available at*: https://www.energy.gov/sites/default/files/2024-05/bto-distributed-equity-analysis-guide_may2024.pdf.

communities.[2] PSE shall incorporate the results and learnings of the analysis into its first ISP.

4. Reject PSE's request to establish a tracker (Schedule 141DCARB) for its forecasted TEP Phase 2 costs and instead include those costs in PSE's base rates.
5. File a tariff revision no later than March 31, 2025, wherein the Company will true-up the estimated 2024 costs to known actuals.

**Q. Have you prepared exhibits in support of your testimony?**

A. Yes. I prepared Exhibits WF-2 through WF-4.

- Exh. WF-2 is *Distributional Equity Analysis for Energy Efficiency and Other Distributed Energy Resources: A Practical Guide*
- Exh. WF-3 is PSE's Response to UTC Staff Data Request No. 28
- Exh. WF-4 is PSE's Response to UTC Staff Data Request No. 151
- Exh. WF-5 is PSE's Response to UTC Staff Data Request No. 161
- Exh. WF-6 is PSE's Response to UTC Staff Data Request No. 162

## III. EQUITY IN DECARBONIZATION PLANNING

### A. Overview of PSE's Decarbonization Efforts

**Q. Please provide a high-level overview of the Company's decarbonization efforts.**

[2] "Named Communities" collectively refers to people that meet the definition of Highly Impacted Communities and Vulnerable Populations as defined by Washington Administrative Code (WAC) 480-100-605.

A. The Company is currently engaging in and proposing several decarbonization-related activities. For the electric utility, Company witness Pospisil provides testimony outlining the Company's resource acquisition activities for acquiring renewable and non-emitting resources.[3] For the natural gas utility, Company witness Jacobs provides testimony outlining the Company's efforts towards decarbonizing its natural gas system. In summary, witness Jacobs outlines that the Company is pursuing additional renewable natural gas resources, supporting the development of green hydrogen for power generation, and continuing to work towards Stipulation O in the UE-220066 Settlement. This Stipulation requires the Company to 1) complete an updated electrification study using up-to-date heat pump technology projections, 2) complete a TEP, and 3) develop a Targeted Electrification Strategy to file with the Commission in early 2025.[4] The Company also maintains conservation and energy efficiency programs under its Biennial Conservation Plans,[5] and is spending revenue generated from the CCA on decarbonization activities.[6]

Finally, Company witness Allis provides testimony discussing the Company's proposal for shortening the service lives for several natural gas accounts.[7] The Company indicates that doing so would assign higher rates to current natural gas customers for the cost of natural gas infrastructure, shielding future customers from potentially ever-increasing rates.

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[3] Pospisil, Exh. CJP-1T.
[4] Jacobs, Exh. JJJ-1T at 32:1-35:19.
[5] WAC 480-109-120.
[6] WAC 173-446-300(2)(b)(iii)(A).
[7] Allis, Exh. NWA-1T.

**Q. Does Staff agree that there are complex challenges facing PSE in its transition to clean and non-emitting fuels through 2030?**

A. Yes. In testimony, PSE presents numerous challenges that it faces in meeting the requirements for electric utilities to achieve an equitable transition to renewable and non-emitting resources, as CETA mandates.[8] Company witness Jacobs provides testimony describing the growth in PSE's electric demand,[9] its need for additional renewable and clean energy,[10] and its need for additional regional transmission investments.[11] Specifically, PSE projects that its electric demand will grow by 0.9 percent per year between 2024 and 2028.[12] This is due to customer growth, increased transportation electrification, and increased air conditioning,[13] contributing toward an overall peak capacity need of 2,406 megawatt (MW) in winter 2030 and 2,531 MW in summer 2030.[14] In meeting this demand, the Company faces significant challenges in transmission, resource acquisition, and financing.

Company witness Steuerwalt provides testimony summarizing the challenges posed to the natural gas utility.[15] Specifically, the Company asserts it is facing dual pressures of rising costs of service and decreasing customer counts due to Washington State policy to reduce greenhouse gas emissions, voluntary electrification, state and local level electrification incentives, and new building codes. The Company cites specific challenges associated with decarbonization of the natural gas system including

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[8] RCW 19.405.010(2).
[9] Jacobs, Exh. JJJ-1T at 3:2-6.
[10] *Id*. at 12:1-13.
[11] *Id*. at 29:14-30:2.
[12] *Id*. at 2:16-18.
[13] *Id*. at 3:2-4.
[14] *Id*. at 10:8-11.
[15] Steuerwalt, Exh. MS-1T at 38:7-39:1-8.

maintaining safety and reliability, acquiring renewable resources to meet the growing electric load as customers electrify, providing affordable services, and achieving various implementation concerns.[16] Staff agrees these are compelling challenges and raises additional concerns regarding the complex challenge of ensuring equitable outcomes in PSE's decarbonization efforts and decision-making.

## B. Distributional Equity in PSE's Decarbonization Efforts

**Q. What is distributional equity?**

A. Staff refers to Commission guidance on distributional justice, provided in Order 09 in the 2021 Cascade GRC, which "refers to the distribution of benefits and burdens across populations" and which "objective aims to ensure that marginalized and vulnerable populations do not receive an inordinate share of the burdens or are denied access to benefits."[17] To ensure whether a Company's investments are distributionally equitable, Staff analyzes whether an investment is maximizing benefits and minimizing burdens.

**Q. Please provide a high-level overview of the Company's incorporation of distributional equity into its decarbonization efforts.**

A. Company witness Hutson provides testimony outlining the actions PSE is taking to advance distributional equity through its decarbonization activities. These activities include 1) prioritizing named communities in its customer and pilot programs while also

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[16] *Id*. at 38:9-20.

[17] *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corp.*, Docket UG-210755, Final Order 09, 18, ¶ 56 (Aug. 23, 2022) (2021 Cascade GRC Order).

incorporating equity considerations at the capital portfolio level consistent with PSE's 2022 GRC Order requirements, 2) partnering with the Lawrence Berkeley National Lab to develop a publicly available decision support tool and accompanying practical guide for enhancing traditional cost-effectiveness review for distributed energy resources (DER),[18] and 3) conducting a DEA pilot on PSE's 80 MW of DER portfolio[19] as part of Stipulation L in the UE-220066 Settlement, and 4) directing at least 30 percent of clean energy benefits from its DER portfolio to named communities.[20]

**Q. What is a distributional equity analysis?**

A. As defined in the DEA Practical Guide, a DEA is an "analytical framework that allows utilities, regulators, communities, and stakeholders to answer questions about the equity implications of utility investments and to consider those implications alongside benefit-cost analysis (BCA)."[21] While a BCA identifies all costs and benefits associated with an investment to determine if the benefits are greater than the costs, it does not identify how benefits and costs affect priority populations, including named communities, nor does it identify hidden disparities for priority populations, such as cost impacts on customers with high energy burden.[22]

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[18] Jasmine McAdams and Nichole L. Hanus, *Establishing and Maintaining Engagement for a Distributional Equity Analysis*, (Lawrence Berkley National Laboratory 2024), *available at*: https://energyanalysis.lbl.gov/publications/establishing-and-maintaining.
[19] The 80 MW of DER portfolio as included in Stipulation L in the UE-220066 Settlement is in reference to the distributed solar proposed in the 2021 CEIP. 2022 PSE GRC Order, Attachment A, 15, ¶ 236.
[20] Hutson, Exh. TAH-1T at 31:10-20.
[21] Franks, Exh. WF-2 at *x*.
[22] Franks, Exh. WF-2 at 3.

**Q. Why are DEAs useful in this context?**

A. DEAs are useful for Staff in considering how Company actions do or do not contribute to energy burden, access to distributed energy resources, adequacy of supporting infrastructure, exposure and vulnerability to environmental and public health impacts, risk of reliability, resiliency, and/or service shutoffs, and lack of access to economic or job benefits of the clean energy transition.[23] DEAs complement BCAs and inform whether a utility's DER investment decisions are equitable, specifically answering whether 1) a utility should pursue or invest in a proposed DER program or continue to support an existing one; 2) to modify or redesign a proposed or existing DER program; and 3) investments across multiple DER programs should be prioritized.[24]

**Q. Is the Company required to apply DEA methodologies to its entire Corporate Capital Planning and Delivery System Planning frameworks?**

A. Yes. Stipulation B and Stipulation L in the UE-220066 Settlement require PSE to apply DEA methodologies to its entire Corporate Capital Planning and Delivery System Planning framework. Specifically, Stipulation L No. 51 provides that following completion of the pilot DEA, "PSE will request Commission approval of its methods for a DEA going forward and, when approved, apply these methods as detailed in the Corporate Capital Planning and Delivery System Planning sections of this stipulation." Likewise, Stipulation B, subsection (b), states that "Once the Company has completed its pilot distributional equity analysis, participated in the Commission Staff-led process,[25]

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[23] Franks, Exh. WF-2 at *x*.
[24] Franks, Exh. WF-2 at *xi*.
[25] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-220066, UG-220067 & 210918, Final Order 24/10, 72, ¶ 236 (Dec. 22, 2022) (2022 PSE GRC Order).

and has received approval from the Commission for its methods (and updated its analysis as necessary to conform to any changes to methods potentially required by the Commission), PSE will include in its corporate spending authorization results of distributional equity analysis."[26]

**Q. Has the Company filed a petition to amend Order language regarding Stipulation B?**

A. Yes. The Company filed a petition to amend the language of Stipulation B to include the following revision: "No later than one year after the Commission approves PSE's distributional equity analysis methods PSE shall make a compliance filing in these dockets demonstrating subsection (b) below."[27]

**Q. Does this open petition affect Staff's recommendations in this testimony?**

A. No. Since the petition is open and has not been heard by the Commission, Staff's recommendations in this testimony stand as is. Further, regardless of whether the Commission approves the petition, Staff believes the Company must be making every effort to incorporate DEA into its business practices. As outlined further in my testimony, Staff believes that the Company is well positioned and resourced to continue applying DEAs to its demand-side programs, which include distributed solar and electrification.

[26] 2022 PSE GRC Order, Attachment A, 15, ¶ 236.
[27] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-220066, UG-220067, & 210918, Petition to Amend Final Order (June 21, 2024).

**Q. Does the Commission currently have an open docket to address topics related to equity, including DEA?**

A. Yes. In Docket A-230217 ("Equity Docket") the Commission is addressing the application of equity and justice in Commission and regulated companies' processes and decisions, which includes an exploration of the four tenants of energy justice.[28] The Equity Docket workplan provides that the Commission will conduct a workshop covering DEA collaboratives on July 30, 2025, and will provide an interim distributional justice policy statement on September 30, 2025.[29]

**Q. Does Staff believe that the Company's actions are sufficient to ensure distributional equity through its decarbonization activities?**

A. No. Staff acknowledges the actions the Company took to partner with Lawrence Berkeley National Lab and to conduct a DEA pilot for two community solar projects. However, as noted in Staff's compliance letter in response to PSE's filing,[30] the Company has not conducted a DEA for the entirety of its 80 MW of DER.[31] Staff finds that without fully developing and implementing the analytic tools necessary to evaluate the distributional equity of its investments, PSE is unable to fully ensure equitable outcomes. The completion of a DEA on PSE's entire distributed solar portfolio is a fundamental first step in addressing distributional equity within its broader DER portfolio.

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[28] Notice of Opportunity to File Written Comments, Docket A-230217 (Sept. 29, 2023).
[29] Workplan Summary, Docket A-230217 (June 21, 2024).
[30] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-220066, UG-220067, & 210918, Compliance Letter (July 10, 2024).
[31] The results of the Company's DEA pilot for two community solar projects was initially filed March 22, 2024, in Docket UE-220066. On July 19, 2024, the Company filed the final results of its DEA pilot and an accompanying letter. Given the timing of the filing, Staff has not yet analyzed the subsequent DEA results.

### C. Equity in PSE's Long-Term Natural Gas Decarbonization Efforts

**Q. Does PSE expect the size of its natural gas system to change in the future?**

A. Yes. Company witness Jacobs states that "PSE expects natural gas energy usage to decline at an average annual rate of 1.2 percent in the next five years (2024-2028)."[32] PSE attributes this decline to new Washington State Energy Code updates, natural gas bans in Seattle and Shoreline, and decreasing allowance for natural gas line extensions.[33]

**Q. Are there equity implications concerning how potential changes in natural gas customer counts affect natural gas rates?**

A. Yes. There is a risk that the cost of fixed assets will be spread to fewer and fewer natural gas customers as more customers electrify and demand shrinks.[34] Consequently, as rates increase for those remaining customers, more customers who can electrify may do so, further contributing to a feedback loop of higher rates and more departing customers. The potential risk of higher rates burdening those unable to transition from natural gas is likely to disproportionately be borne by low-income customers and customers in named communities. As PSE's most recent Energy Burden Analysis[35] found that 246,000 (39%) of PSE's natural gas customers are low-income and among those 74,000 (10.8%) are also energy burdened, Staff find that there are significant equity implications regarding the potential risk of rising natural gas rates.

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[32] Jacobs, Exh. JJJ-1T at 3:17-20.
[33] *Id*. at 4:3-8.
[34] Niki Mi, *The Importance of Natural Gas Rate Design During the Energy Transition*, (ICF), *available at*: https://www.icf.com/insights/energy/natural-gas-rate-design-energy-transition#:~:text=The%20higher%20gas%20rate%20may,regulators%20in%20an%20impossible%20bind.
[35] Jhaveri, Exh. BDJ-3 at 32.

**Q. What actions is the Company currently taking in response to this potential risk?**

A. Company witness Allis provides testimony supporting the Company's depreciation study[36] and a proposal for shortening the service lives for several natural gas accounts, which would result in an increase in depreciation.[37] Specifically, Company witness Allis proposes "to shorten the service lives of several accounts by as much as 10 years," incorporating future potential for decreasing customer count into rates.[38] Staff witness McGuire provides a more thorough discussion of the Company's depreciation study and proposal for shortening the service lives for several natural gas accounts.[39]

**Q. Does Staff have concerns with how the Company is planning for equity in its long-term natural gas decarbonization planning?**

A. Yes. Staff is concerned that without quantifiable recognition of the potential increase in rates caused by a changing natural gas system, the Company cannot plan for equitable outcomes. While the Company is taking steps to address rates through its depreciation study and proposal for shortening the service lives for several natural gas accounts, Staff finds that neither include analysis on the equity impacts of depreciation schedules on rates. Further, the Company lacks a comprehensive plan that identifies the benefits and burdens of natural gas decarbonization on priority populations, especially customers in named communities. Long-term planning and management of the transition away from

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[36] Allis, Exh. NWA-1T.
[37] *Id*. at 18:7-10.
[38] *Id*. at 28:13-15.
[39] *See* McGuire, Exh. CRM-1T at 21-26.

natural gas must account for costs and consider equity in how that transition maximizes benefits and reduces burdens to named communities.[40]

## IV. POLICIES APPLICABLE TO EQUITY IN DECARBONIZATION

### A. Statutes and Rules

**Q. First, please summarize the statutory or regulatory framework that requires electric and natural gas utilities to decarbonize.**

A. There are three overlapping statutory drivers that require PSE to decarbonize: CETA, the CCA, and DALCU. First, CETA requires electric utilities to fully transition to clean, renewable and non-emitting resources by 2045.[41] CETA also requires that electric utilities develop and submit to the Commission CEIPs, which are intended to prepare the utilities to meet CETA's mandatory clean energy targets.[42] While currently there is no direct equivalent of CEIPs for natural gas utilities,[43] a natural gas utility's integrated resource plan (IRP) must consider a range of potential future outcomes that affect the utility's ability to meet long-term energy resource needs.[44] Natural gas utilities must therefore consider the factors that lead customers to decarbonize and the effect of decarbonization on the natural gas system.[45]

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[40] *California's Gas System in Transition: Equitable, Affordable, Decarbonized and Smaller*, Gridworks, p. 3 (August 2019).
[41] RCW 19.405.050(1).
[42] RCW 19.405.060.
[43] RCW 80.86.020(4)(z).
[44] RCW 19.280.030.
[45] WAC 480-90-238(3)(a). *Letter of Noncompliance Regarding 2023 Natural Gas Integrated Resource Plan,* Docket UG-220131 (Feb. 5, 2024).

Next, under the CCA, electric and natural gas utilities are required to participate in a "cap and invest" program that sets a declining cap on greenhouse gas emissions with the goal to reduce emissions in Washington by 95 percent by 2050.[46] Under the CCA, electric utilities receive "no-cost allowances" that they may sell to generate revenue for the benefit of ratepayers, as determined by the Commission.[47] Likewise, natural gas utilities receive a portion of allowances at no cost which they must sell at auction to generate revenue for the minimization of cost impacts on low-income, residential, and small business customers through, among other actions, decarbonization.[48] The Commission must determine how utilities use revenue from the consignment of allowances for the benefit of customers.[49] In the first quarter of 2024, PSE engaged with interested parties on the design of its decarbonization programs funded by allowance revenue.[50]

Finally, under DALCU, PSE must file an ISP on or before January 1, 2027,[51] which includes scenarios with emissions reduction targets for both gas and electric operations for each emissions reduction period that account for the interactions between natural gas and electric systems, among other requirements.

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46 RCW 70A.45.020 and WAC 173-446-010.
47 WAC 173-446-300(2)(b)(i).
48 WAC 173-446-300(2)(b)(iii)(A).
49 WAC 173-446-230 and WAC 173-446-240.
50 *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UG-230968, PSE's Compliance Filing (May 30, 2024).
51 RCW 80.86.020(4).

**Q. Must utilities consider equity in their decarbonization actions and plans?**

A. Yes. Under CETA, electric utilities must consider how their investment decisions affect highly impacted communities and vulnerable populations,[52] and ensure that all customers benefit from the transition to clean energy, through the equitable distribution of energy and non-energy benefits and reductions of burdens to highly impacted communities and vulnerable populations.[53] While natural gas utilities currently do not have plans equivalent to CEIPs, to the extent that they consider decarbonization in IRPs they must include equity considerations.[54] Finally, DALCU provides that the Commission, in its determination whether to approve the ISP, reject the ISP, or approve the ISP with conditions, must evaluate whether the ISP is in the public interest and includes equity considerations.[55]

**Q. How does the Decarbonization Act for Large Combination Utilites change PSE's mandate for decarbonization and consideration of equity?**

DALCU requires that the Commission complete a rulemaking to address the Company's consolidated planning requirements no later than July 1, 2025,[56] and until then specific details regarding DALCU will not be known. Additionally, as referenced above, DALCU provides that the Commission "approve, reject, or approve with conditions an ISP,"[57]

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52 WAC 480-100-640.
53 RCW 19.405.040(8).
54 Staff has previously communicated to PSE in responsive comments to their 2023 IRP that equity must be addressed in all public interest considerations and recommended for the Company to consider how the core tenets of energy justice apply to PSE and prepare to implement the order's equity framework in its 2025 IRP, in part by dedicating time in the work plan for this topic. *In re Puget Sound Energy's 2023 Natural Gas Integrated Resource Plan*, Docket UG-220242, Staff Comments, 9-10 (March 31, 2023).
55 RCW 80.60.020(12)(e).
56 RCW 80.60.020(2)(a).
57 RCW 80.86.020(11).

which PSE will not file until January 1, 2027.[58] While DALCU is new, incorporation of equity into the Company's energy planning is not. Details regarding equity in decarbonization under DALCU's new planning structures will likely be addressed in the forthcoming rulemaking and/or after submission of the Company's first ISP.

That being said, there are some components of DALCU that reinforce existing statutes and rules relevant to my testimony. For example, DALCU expresses the legislature's intent that large combination utilities,[59] which includes PSE, decarbonize their systems by, among other things, "ensuring an equitable distribution of benefits to, and reduction of burdens for, vulnerable populations, highly impacted communities, and overburdened communities that have historically been underserved by utility energy efficiency programs and may be disproportionately impacted by rising fuel and equipment costs or experience high energy burden."[60] Additionally, DALCU provides that when large combination utilities file ISPs, they demonstrate how they will achieve all cost-effective electrification[61] and include low-income electrification programs that provide demonstrated material benefits to low-income participants.[62]

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[58] RCW 80.86.020(4).
[59] "Large combination utility" means a public service company that is both an electrical company and a gas company that serves more than 800,000 retail electric customers and 500,000 retail gas customers in the state of Washington as of June 30, 2024. RCW 80.86.020(20).
[60] Laws of 2024, Ch. 351, § 3(5).
[61] RCW 80.86.020(4)(h).
[62] RCW 80.86.020(4)(h)(ii).

### B. Standards Related to Equity

**Q. Does Staff consider equity when determining what future investments to allow into rates?**

A. Yes. RCW 80.28.425(1) states that the Commission may consider equity in determining whether a utility's multiyear rate plan is in the public interest. Subsequent Commission Orders expanded how Staff consider equity in determining public interest.[63] In particular, in the 2022 Cascade GRC Order[64] the Commissions adopted three guiding principles for incorporation of equity into its regulatory framework,[65] and adopted four energy justice tenets used to guide this assessment.[66] Staff applies the Commission's guidance on equity when determining prudence of utility investment decisions. Staff witness Harmon provides more discussion on Commission standards of review for equity, as well as Staff's review and analysis of the Company's progress in developing and implementing energy equity strategies.[67]

**Q. Why is it important for Companies to consider equity in their planning documents?**

A. Staff refer to planning documents, including CEIPs and IRPs, in GRCs because they inform the investments that utilities propose. These plans allow Staff to consider how the

[63] *See* 2021 Cascade GRC Order at 17-20; 2022 PSE GRC Order at 68-70; *In re Puget Sound Energy's 2021 Clean Energy Implementation Plan*, Docket UE-210795, Order 08 at 95-96 (June 6, 2023); *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-220053 and UG-220054, Order 10/04 at 26-28 (December 12, 2022).
[64] 2021 Cascade GRC Order at 18, ¶ 56.
[65] The three guiding principles are: 1) Developing, strengthening, and supporting policies and procedures that distribute and prioritize resources to those who have been historically and currently marginalized, including tribes; 2) eliminating systemic barriers; and 3) achieving procedural and outcome fairness, and promoting dignity, honor and respect for all people.
[66] The four tenets of energy justice adopted in the 2022 Cascade GRC Order are: recognition, distributional, procedural, and restorative justice.
[67] Harmon, Exh. BLH-1T at 10:18–12:15.

Company is planning for equitable outcomes through the proposed decarbonization activities. Staff notes that considerations in the ISP will become more important in 2027 and beyond.

**Q. What does Staff mean when it refers to "planning for equitable outcomes through its decarbonization activities?"**

A. As outlined in prior Staff testimony, planning for equitable outcomes means designing "specific, actionable, and timebound policies and procedures grounded in research and substantial engagement with affected persons to promote distributional equity for all customers as a result of enterprise-wide capital investments."[68]

## V. PSE'S DECARBONIZTION ACITIVITES

### A. Distributional Equity Analysis for Distributed Solar

#### 1. Discussion

**Q. Can you elaborate on why Staff finds that the Company's actions are not sufficient to ensure distributional equity through its decarbonization activities?**

A. Yes. As I stated earlier, the Company must fully develop and implement the analytic tools necessary to evaluate the distributional equity of its investments and the completion of a DEA on PSE's entire distributive solar portfolio is a fundamental first step. Staff

[68] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-220066, UG-220067, & 210918, Brewer, Exh. MAB-1T at 8:16-17 (filed July 8, 2022).

acknowledge the steps PSE took to partner with Lawrence Berkeley National Lab and to conduct a DEA pilot for two community solar projects. However, the focus of the Company's DEA pilot was two solar projects, as noted in Staff's compliance letter, which only represents 250 kilowatts, or 0.3 percent of the distributed solar capacity in PSE's CEIP. Staff finds that this limited scope does not provide Staff or other interested parties enough information to fully analyze whether PSE is ensuring equitable outcomes within its distributed solar portfolio. As I stated above, DEAs complement BCAs by allowing one to assess whether a program should be pursued, continued, or modified.

Further, to ensure robust and accurate analysis, the Company must monitor DER programs and evaluate for distributional equity impacts often and over-time to ensure that the assumptions used are accurate.[69] Companies without a historic record of conducting DEAs must begin tracking and/or collecting relevant data to inform future DEA work.[70] Without this data, Companies are unable to inform decision-making regarding program planning, design, and/or improvement. The Company's ability to conduct future DEAs and address the inadequacy of traditional BCAs for capturing hidden disparities in DER investments is therefore delayed by not having benchmark DEAs.[71]

**Q. Should the Company wait for Commission's guidance in the Equity Docket, or elsewhere, before continuing its work in conducting DEAs?**

A. No. Staff does not find it is in the public interest for the Company to delay any actions that would advance its ability to conduct a DEA. As outlined earlier, Companies are

[69] Franks, Exh. WF-2 at 24.
[70] *Id*.
[71] *Id*. at 3.

required by statute to ensure equitable outcomes. This requirement is not prefaced on action taken after Commission guidance.[72] PSE must work in all capacities to advance its ability to implement a DEA to guarantee that they are equipped with the tools necessary to ensure that named communities and other priority populations receive a commensurate distribution of benefits and burdens, especially for programs that traditional BCAs fail to capture distributional equity impacts for.

Additionally, in prior testimony, Staff clarified its position that the Equity Docket should provide an opportunity for Washington investor-owned utilities to *collaborate* and *refine* DEA methodology, not for the Commission to provide step-by-step, one-directional instruction on how to conduct a DEA.[73] The Company should continue to conduct its own work, in tandem and communication with the Commission and interested parties, to ensure that it makes reasonable progress without unnecessary delay.

**Q. Are there ample resources available for the Company in conducting DEAs?**

A. Yes. First, as provided in Exhibit 2 of this testimony, the U.S. Department of Energy's DEA Practical Guide is available as a resource for the Company. Second, as mentioned above, the Company completed work with Lawrence Berkley National Labs to develop standards and methods for conducting a DEA. Third, while the Company has not yet applied a DEA to the entirety of its distributed solar portfolio, the Company did complete a DEA pilot for two individual solar projects. The Company can apply its lessons learned

[72] The Commission has previously commented on a similar issue, indicating that the Company is "required to work towards CETA compliance even while awaiting Commission approval of interim targets in the CEIP." 2022 PSE GRC Order at 7, ¶ 24.

[73] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Dockets UE-230172 & UE-210852, Brewer, Exh. MAB-1T at 27:17-20 (Sept. 14, 2023).

and overall experience in this initial work to future DEAs. Finally, the Company has already completed work in other capacities that directly overlaps with the steps for conducting a DEA, as outlined in the DEA practical guide, including identification of priority populations and developing metrics.

### 2. Recommendation

**Q. What is Staff's recommendation to ensure the Company sufficiently advances distributional equity through its decarbonization activities?**

A. Staff recommends that the Company conduct a DEA to the entirety of PSE's distributed solar portfolio, fulfilling the original Stipulation L in the UE-220066 Settlement.

**Q. Please detail Staff's recommendation for the Company to conduct a DEA on its distributed solar portfolio.**

A. In conducting the DEA, the Company will consult the best practices including, but not limited to, those outlined in the DEA Practical Guide.[74] The Company will also work closely with Staff, interested parties, and its advisory groups early and often to ensure that reasonable progress is being made for completion of the DEA. If the Company finds any roadblocks to fulfill the requirement to complete the DEA, it will consult with Staff, interested parties, and its advisory groups to ensure a reasonable and sufficient solution. PSE will file the findings, results, and any learnings from the DEA within this docket no later than January 31, 2027, and incorporate them into the Company's first ISP.

[74] Franks, Exh. WF-2. It is Staff's expectation that Washington Companies use the U.S. DOE DEA Practical Guide in future applications of DEAs.

## B. Distributional Equity in Targeted Electrification

### 1. Discussion

**Q. Does the Company propose additional efforts for decarbonization in this rate case?**

A. Yes. Company witness Mannetti provides testimony detailing the Company's proposed TEP Phase 2, which intends "to provide heat pump incentives to sustain current customer offerings, assess whether targeted electrification can alleviate the need to expand the natural gas delivery system in a capacity constrained area, and broaden the customer reach of TEP Phase 1."[75] The proposed TEP Phase 2 specifically includes the following individual program components: 1) direct heat pump installs for low-income residential customers, 2) direct heat pump installs for small businesses in named communities, 3) heat pump rebates for multi-family customers in named communities, 4) targeted electrification in natural-gas constrained geographic areas, 5) heat pump rebates for income-qualified customers, and 6) targeted electrification grants for commercial and industrial customers.

**Q. Did PSE outline how it intends to evaluate distributional equity among the participants of its Targeted Electrification Pilots?**

A. No. In response to Data Request No. 161[76] and No. 162,[77] the Company indicated that it is waiting for further guidance from the Commission on its DEA filing as described in

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[75] Manetti, Exh. JM-1CT at 15:8-12.
[76] Franks, Exh. WF-6.
[77] Franks, Exh. WF-7.

Order 24/10 in Dockets UE-220066, UG-220067 and UG-210918 before conducting further DEAs.

**Q. Is it important for the Company to evaluate the distributional equity impacts of its electrification activities?**

A. Yes. As discussed above, traditional reliance on BCA for utility decision-making fails to fully capture the distributional equity impacts of an investment. DEA is a necessary tool for the Company's, the Commission's, and interested parties' evaluation of how Company's actions ensure "that marginalized and vulnerable populations do not receive an inordinate share of the burdens or are denied access to benefits."[78] The Company must apply DEA to its electrification programs to ensure that it fully quantifies the distributional impacts of those programs on its customers and supplement the shortcomings of a traditional BCA. It is therefore important that the Company apply a DEA during the early stages of its larger electrificaiton portfolio development, as waiting until its electrification activities are well underway will hinder equitable outcomes during the Company's overall decarbonization transition.

**Q. Are there other reasons why it is important for the Company to evaluate the distributional equity impacts of its electrification activities?**

A. Yes. As the Company begins to design and work towards implementing an electrification portfolio, it must ensure that those actions lead to equitable outcomes. This is especially true for electrification programs that primarily target low-income and named

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[78] 2021 Cascade GRC Order at 18, ¶ 56.

communities, in which the Company must be able to effectively evaluate and assess how well those programs are promoting equity.[79] For individual programs, a DEA would specifically be useful in gathering information on participation rates, which is an important goal to achieve in new programs.[80] Additionally, a DEA that assesses a program designed to serve a specific population is specifically useful in determining to what extent that program is achieving its stated goal.[81] Ultimately, these electrification pilots represent an early and practical opportunity to gain a better understanding of the distributional impacts in electrification.

**2. Recommendation**

**Q. What is Staff's recommendation to ensure that the Company evaluates the distributional equity impacts of its electrification activities?**

A. Staff recommends that the Commission order PSE to conduct a DEA on its proposed TEP Phase 2.

**Q. Please detail Staff's recommendation for the Company to conduct a DEA on its proposed electrification pilots.**

A. In conducting the DEA, the Company will consult the best practices including, but not limited to, those outlined in the DEA Practical Guide. The Company will also work closely with Staff, interested parties, and its advisory groups early and often to ensure

[79] Franks, Exh. WF-2 at 23.
[80] *Id*.
[81] *Id*.

that the Company is making reasonable progress for completion of the DEA. If the Company finds any roadblocks to fulfill the requirement to complete the DEA, it will consult with Staff, interested parties, and its advisory groups to ensure a reasonable and sufficient solution. PSE will file the findings, results, and any learnings from the DEA within this docket no later than January 31, 2027, and incorporate them into the Company's first ISP.

**Q. How does Staff's recommendation for PSE to conduct a DEA on its electrification pilots and distributed solar portfolio, align with Stipulation L No. 51 in the UE--220066 Settlement?**

A. These recommendations align with Stipulation L No 51. in the UE-220066 Settlement because they provide additional avenues for the Company to apply a DEA as a tool to make investment decisions. Stipulation L will require the Company to apply methods for a DEA to its Corporate Capital Planning and Delivery System Planning following the end of a Commission-led process wherein DEA methods will be refined.[82] However, in the meantime, Staff finds it reasonable that the Company be advancing its working knowledge for how to conduct a DEA at every available opportunity.

[82] 2022 PSE GRC Order, Appendix A at 27.

### C. Equity Concerns in Natural Gas System Planning

#### 1. Discussion

**Q. Does Staff agree with PSE's forecast predicting a decline in natural gas customer counts?**

A. Yes. Beginning January 1, 2025, PSE will no longer be able to offer any form of rebate, incentive, or other inducement to residential gas customers to purchase any natural gas appliance or equipment.[83] By November 1, 2025, PSE must begin educating ratepayers about the benefits of electrification and the availability of rebates, incentives, or other inducements to purchase energy efficient electric appliances.[84] Staff finds it reasonable to assume that these new provisions of DALCU, the continued impact of CCA compliance costs, potential voluntary electrification, and the potential for decreasing price of electric appliances, including heat pumps, will have a cumulative impact on natural gas customer counts.

**Q. Does Staff believe the Company needs to take action to address these risks?**

A. Yes. To ensure equitable outcomes, the Company must have a comprehensive strategy that considers how priority populations, including customers in named communities, benefit from and are left behind in the transition away from natural gas. This strategy must consider, at minimum, the impact of different depreciation schedules on customers,

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[83] RCW 80.86.070(1).
[84] RCW 80.86.070(1)(2).

constraining fixed costs, avoiding stranded gas-side assets, and bill protections and other rate making adjustments that may be necessary to mitigate harms to customers.

**Q. Has the Company analyzed the effect of changing customer counts on forecasted rates for remaining natural gas customers?**

A. No. In response to Staff Data Request No. 151,[85] the Company indicated that it has not performed a detailed analysis forecasting average residential gas bills in the context of declining customer counts and CCA compliance costs.

**Q. Does Staff therefore find the Company's current actions to address these risks insufficient?**

A. Yes. While PSE proposes shortening the service lives for several natural gas accounts, Staff finds this insufficient to address the potential impacts of rising natural gas rates on fewer and fewer customers. Staff finds that without fully accounting and quantifying the potential risk of rising rates due to changes in the natural gas system, the Company will be unable to adequately plan for equitable outcomes.

**Q. Has Staff previously commented on the Company's lack of consideration for the impact of rate change on a decreasing natural gas customer count?**

A. Yes. In response to the Company's 2023 IRP, Staff noted the "purchase of CCA allowances, offsets, and/or zero- or lower-emission fuels will likely drive gas customer

[85] Franks, Exh. WF-4.

bills up" and contribute towards customers leaving the natural gas system, and that the Company should account for this dynamic in its 2025 IRP. [86]

**Q. Will the Company file a 2025 IRP?**

A. No. On July 11, 2024, the Commission approved the Petition by the Company to consolidate its Natural Gas IRP, Electric IRP, CEIP, and CEIP Public Participation Plan into the Company's first ISP.[87]

**Q. Should the Company wait until filing its first ISP in 2027 to address this issue?**

A. No. Staff believes that delaying analysis that considers how long-term changes in PSE's natural gas system will impact priority populations, including customers in named communities, will contribute towards unequitable outcomes. The Company should work ahead of its first ISP to ensure it is adequately prepared for future decision-making.

### 2. Recommendation

**Q. What does Staff recommend the Company do to adequately address these risks?**

A. Staff recommends the Commission order the Company to conduct a cost burden analysis on the effect of a range of future inputs and scenarios. This cost burden analysis will help ensure that the Company is adequately prepared to address the potential effect of a changing natural gas system on rates and to comprehensively conduct long-term natural

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[86] *In re Puget Sound Energy's 2023 Integrated Resource Plan*, Docket UG-220242, Staff's Comments Regarding PSE's 2023 Natural Gas Integrated Resource Plan at 10 (June 5, 2023).
[87] *In re Petition for Exemption*, Docket UE-240433, Order 01 (July 11, 2024).

gas planning that ensures an equitable distribution of benefits to, and reduction of burdens for, named communities and customers that are otherwise overburdened. The analysis should include, but not be limited to, changing customer counts, CCA compliance costs, and other relevant factors on forecasted rates for remaining natural gas customers, with consideration given to energy burden on named communities. PSE will file the findings, results, and any learnings from the cost burden analysis within this docket no later than January 31, 2027, and incorporate them into the Company's first ISP.

## VI. PSE'S DECARBONIZATION RATE ADJUSTMENT

### A. Discussion

**Q. Please summarize PSE's proposal for cost-recovery of its TEP Phase 2.**

A. Company witness Mickelson details PSE's rationale for including costs associated with the Company's proposed TEP Phase 2 in a dedicated decarbonization schedule, rather than in base rates.[88] In summary, witness Mickelson indicates that a separate schedule for PSE's electrification activities would allow the Company to 1) strategically allocate resources specific to targeted electrification, 2) allow for transparent review by stakeholders, 3) enable accountability for effectiveness of initiatives, and 4) communicate the Company's decarbonization actions to customers.

[88] Mickelson, Exh. CTM-1T at 61:7-62:20.

**Q. Does Staff support PSE's proposal to establish a dedicated electrification tracker?**

A. No. As discussed in the testimony of Staff witness McGuire, unless establishing a tracker is necessary to advance a specific public policy or to address extreme variance risk, establishing a tracker is harmful to ratepayers and inconsistent with the public interest.[89] PSE's proposed electrification tracker does not serve either of these purposes and, therefore, is not in the public interest.

**Q. Can you please explain how establishing a dedicated electrification tracker does not advance a specific public policy?**

A. Yes. As decarbonization is a public policy goal of CETA, the CCA, and DALCU, Staff does not currently have concerns that there is a risk that the Company will not successfully complete its electrification activities are at risk without a dedicated electrification tracker. If approved, the Company must complete these pilots as they are approved in the context of a GRC. Further, electrification efforts in general would presumably have the dual effect of 1) increasing load and the associated revenue, and 2) decreasing the Company’s compliance costs under the CCA. Staff finds that given the incentive for the Company to electrify, a dedicated electrification tracker is not necessary to advance a specific public policy goal.

Transparent review, accountability, and customer communication are not components achieved only though a separate schedule. The Company should be providing regular and transparent messaging throughout its current and future advisory groups regardless of where it recovers its rates. Moreover, given future requirements for

[89] McGuire, Exh. CRM-1T at 33-36.

PSE to achieve cost-effective electrification under DALCU, the Company may need to consider electrification in their long-term planning, further eliminating the need for a separate cost-recovery tracker.

**Q. Can you please explain why the Company does not need a dedicated electrification tracker to address variance risk?**

A. Yes. The TEP Phase 2 costs that PSE includes in its proposed decarbonization tracker are within the Company's ability to control and, accordingly, any amount of variance risk that PSE may be exposed to is entirely within the Company's ability to manage. Furthermore, not only are the costs within the Company's ability to control, but they are largely predictable; the costs reflect specific actions identified in the Company's decarbonization plan and are not a function of highly volatile market prices. In short, Staff did no find enough evidence of extreme variance risk.

### B. Recommendation

**Q. What is Staff's recommendation for the recovery of costs associated with PSE's proposed TEP Phase 2?**

A. Staff recommends that the Commission reject PSE's request to establish a tracker for its forecasted TEP Phase 2 costs and instead include those costs in PSE's base rates. The Company's proposed decarbonization tracker is not in the public interest as it does not advance a specific public policy or address extreme variance risk.

## VII. PSE'S CLEAN ENERGY IMPLMENTATION PLAN DEFERRAL

### A. Discussion

**Q. Please describe the Company's Clean Energy Implementation Plan deferral.**

A. In Docket UE-230131, the Commission granted PSE's petition to defer the costs associated with the CEIP and for the Company to develop a separate tracking mechanism and tariff for those costs that the Company would be deferring.[90] PSE then implemented rates for the CEI tracker under Schedule 141CEI - Clean Energy Implementation Tracker (CEI Tracker), starting on September 1, 2023,[91] and PSE will continue to recover those costs through the effective date of new rates in this proceeding.[92]

**Q. Please outline the issue that the Company is attempting to resolve in this rate case.**

A. As described by Company witness Free,[93] settling parties in the 2022 GRC agreed that Schedule 141CEI would expire and costs would be transferred to base rates in this GRC. Schedule 141CEI provided that a true-up of the estimated costs and forecasted revenues would be provided for in the Company's next general rate case.[94] However, the actual amount of O&M, depreciation, and rate base compared to what was originally used to set rates is not yet known and will not be known until sometime after January 2025. Since it

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[90] *In re Puget Sound Energy's Petition for an Accounting Order Authorizing Deferred Accounting Treatment of the costs of its Clean Energy Implementation Plan Docket*, UE-230131, Order 01 (August 24, 2023).
[91] Docket UE-230591, allowed to go into effect at the August 24, 2023 Commission Open Meeting.
[92] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-220066, UG-220067, & 210918, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE's Green Direct Program.
[93] Free, Exh. SEF-1T at 92:16-93:7.
[94] Docket UE-230591, PSE's Electric Tariff G, Schedule 141CEI at 2 (July 17, 2023).

cannot adhere to the original agreement, PSE proposes that it be allowed to conduct the true-up based on these actual costs, in its next GRC.[95] The Company indicated to Staff that it believes that its proposal closely adheres to the previous settlement.

**Q. Does Staff agree with this proposal?**

A. No. While Staff recognizes that PSE's proposal to true-up the costs in the next GRC may adhere to the spirit of the original 2022 GRC Settlement Agreement, Staff finds that this proposal is not in the public interest. Staff believes that conducting a true-up as soon as the Company knows the actual costs, rather than waiting until the next GRC, will minimize intergenerational inequity. If PSE over-collected and must issue a refund to customers, then customers should receive that money back sooner to minimize any lost value of that money over time. Alternatively, if PSE needs to collect additional rates due to an under-collection, then it should do so sooner to more closely align the rates with actual costs.

### B. Recommendation

**Q. What is Staff's recommendation regarding PSE's CEIP deferral?**

A. Staff recommends that the Commission order PSE file a tariff revision no later than March 31, 2025, wherein the Company will true-up the estimated 2024 costs to known actuals. Staff agrees that because PSE cannot true-up costs in time for this GRC, it cannot adhere to the original settlement language. However, Staff finds it would be better to

[95] Free, Exh. SEF-1T at 93:16-92:4.

settle the deferral balance in a timelier manner than in the next GRC. Further, in response to Commission Staff Data Request No. 028, the Company noted that "the next GRC is not the only venue in which the final true-up can occur" and that the Company is "open to conducting the final true-up in a separate stand-alone filing utilizing Schedule 141CEI prior to the next GRC if the Commission were to provide approval of such an approach."[96]

**Q. Does this conclude your testimony?**

A. Yes.

[96] Franks, Exh. WF-3.