

**Exh. PK-1T
Dockets UE-240004,
UG-240005, UE-230810
Witness: Paul Koenig**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**DOCKETS UE-240004,
UG-240005 and UE-230810
(Consolidated)**

TESTIMONY OF

PAUL KOENIG

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Demand Response & Equity, DR PIM, and DR Metrics

August 6, 2024

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1 **I. INTRODUCTION**

2

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

4 A. My name is Paul Koenig, and my business address is 621 Woodland Square Loop SE,
5 Lacey, Washington 98503. My business mailing address is P.O. Box 47250, Olympia,
6 Washington 98504-7250. My email address is paul.koenig@utc.wa.gov.

7

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

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (Commission) as a Regulatory Analyst in the Energy Planning Section of the Regulatory
11 Services Division.

12

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

14 A. I have a Master's degree in International Affairs from the School of Global Policy and
15 Strategy at the University of California at San Diego, and a Bachelor's degree in
16 International Studies from the University of California at San Diego. I attended
17 Regulatory Training with Bill Steele & Associates and completed several NARUC
18 training courses regarding Electricity and Gas regulation. I previously worked as a
19 Regulatory Analyst for the Public Advocates Office at the California Public Utilities
20 Commission with a focus on Demand Response programs.

21

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

23 A. No.

1 **II. SCOPE AND SUMMARY OF TESTIMONY**

2

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

4 A. I address Puget Sound Energy’s (“PSE” or “Company”) Demand Response (DR)

5 programs as they relate to equity and achieving the goals set out by the Clean Energy

6 Transformation Act (CETA), PSE’s proposed DR Performance Incentive Mechanism

7 (PIM) changes, and PSE’s proposed Distributed Energy Resources (DER), Customer

8 Satisfaction, and DR performance metrics changes.

9

10 **Q. Please summarize your recommendations.**

11 A. Commission Staff (Staff) recommends the Commission allow for recovery of the three

12 DR Power Purchase Agreements (PPAs), which PSE selected to meet the 2025 winter

13 cumulative peak DR goal of 86 Megawatts (MW), and allow PSE to earn a return on

14 these DR PPAs but, as explained in the testimony of Staff witness McGuire, the return

15 should be calculated at the Company’s authorized cost of debt rather than at its

16 authorized rate of return.¹

17 Staff recommends that the Commission reject PSE’s proposed DR PIM and

18 instead order PSE implement an alternative DR PIM, as described in Section IV of this

19 testimony. This would incentivize the company to implement more DR programs and

20 increase the availability of said DR programs within Named Communities. Relatedly,

21 Staff also recommends that the Commission require PSE develop an action plan for the

¹ See McGuire, Exh. CRM-1T at 78-80.

1 purpose of designating 30 percent of the energy benefits of its DR programs to Named
2 Communities.

3 In Section V of this testimony, Staff recommends the Commission adopt PSE's
4 proposed changes to the DR metric "*Total Electric Peak Load Management Savings,*"
5 reject PSE's proposed changes to the DER metric "*Number of customers served by PSE's*
6 *DER programs,*" and adopt only partial aspects of PSE's proposed changes to the DER
7 and Customer Satisfaction metrics "*The capacity provided through each of PSE's DER*
8 *programs*" and "*Successful billing accuracy.*"

9
10 **Q. Have you prepared exhibits in support of your testimony?**

11 A. Yes. I prepared Exhibits PK-2 through PK-5.

- 12 • Exh. PK-2 shows PSE's response to Staff Data Request No. 054, regarding why it
13 considered residential customer overlap a significant issue in its DER Request for
14 Proposal (RFP), which lead to certain DR proposals not being short-listed.
- 15 • Exh. PK-3 shows PSE's response to Staff Data Request No. 062, regarding how it
16 will provide DR energy benefits to Named Communities.
- 17 • Exh. PK-4 shows PSE's response to Staff Data Request No. 066, regarding its
18 rationale for increasing the cap on PIM incentives from \$1 million in the last
19 GRC, to \$3 million now.
- 20 • Exh. PK-5 shows PSE's response to Staff Data Request No. 084, regarding
21 "Direct Outreach" to Named Communities customers.

1 **III. DEMAND RESPONSE AND EQUITY**

2

3 **Q. What is Demand Response (DR) and why is it important in this case?**

4 A. CETA defines DR as “changes in electric usage by demand-side resources from their
5 normal consumption patterns in response to changes in the price of electricity, or to
6 incentive payments designed to induce lower electricity use, at times of high wholesale
7 market prices or when system reliability is jeopardized. "Demand response" may include
8 measures to increase or decrease electricity production on the customer's side of the
9 meter in response to incentive payments.”² DR is an integral resource to consider for
10 meeting capacity needs in a decarbonized energy system, using demand-side incentives to
11 reduce the overall demand for electricity in response to increased market prices or system
12 reliability needs. For years, DR has been utilized across the United States as a
13 complementary tool within energy portfolios to reduce energy demand, decreased
14 financial and grid resiliency strain, and help meet decarbonization goals. Staff believes
15 that a series of robust, cost-effective, DR programs are necessary for Washington’s
16 current and future energy needs.

17

18 **Q. What is PSE requesting regarding DR in this case?**

19 A. PSE requests a Commission finding of prudence for the three DR PPAs (AutoGrid,
20 Oracle, Enel X) that were selected to implement PSE’s DR portfolio and meet its 2025
21 winter cumulative peak DR target of 86 MWs. Additionally, PSE requests the

² RCW 19.405.020(11).

1 Commission allow for recovery of the 2025 and 2026 costs and potential earnings on the
2 DR PPAs pursuant to RCW 80.28.410.³

3
4 **Q. What is PSE’s current DR portfolio?**

5 A. PSE’s current DR portfolio consists of four DR programs – Flex Events, Flex Smart, Flex
6 Rewards, and the Business Demand Response Program (BDRP).⁴ Each of these programs
7 covers a unique customer segment and is run through a Virtual Power Plant (VPP), which
8 was acquired through a 2021 RFP.⁵ PSE selected AutoGrid Flex as its VPP platform and
9 it is currently being deployed to dispatch DR resources.⁶

10
11 **Q. What are PSE’s requirements concerning DR?**

12 A. Under CETA, each utility must “pursue all cost-effective, reliable, and feasible
13 conservation and efficiency resources, and demand response.”⁷ Pursuant to this
14 requirement, the Commission has imposed a number of DR-related conditions upon
15 PSE’s 2021 Clean Energy Implementation Plan (CEIP).⁸ Some of these conditions are 1)
16 PSE will increase its DR MW target,⁹ 2) PSE will designate for Named Communities a
17 minimum of 30 percent of the energy benefits of its DR programs,¹⁰ and 3) provide

³ Archuleta, Exh. GA-1T at 40:7-10.

⁴ *Id.* at 8:14-17.

⁵ See Archuleta, Exh. GA-3 for PSE’s 2021 RFP.

⁶ Archuleta, Exh. GA-1T at 3:4-6.

⁷ RCW 19.405.040(6)(a); RCW 19.405.050(3); WAC 480-100-610(4)(a).

⁸ See *In re Puget Sound Energy’s 2021 Clean Energy Implementation Plan*, Docket UE-210795, Order 08 at 105, (June 6, 2023) (Order 08).

⁹ Order 08, Condition 4 at 19, “PSE will increase its demand response target to include all cost-effective DR bids it received in response to its recent RFP. PSE will include expanded Direct Load Control offerings in this increased target.”

¹⁰ *Id.* Condition 20 at 75, “PSE will file with the Commission an amendment to this CEIP to designate for Named Communities a minimum of 30% of the energy benefits of its DER solar, DER storage, DR, and EE programs, with benefits measured across each tranche of resources.”

1 further detail and analysis about its DR programs in the 2023 Biennial CEIP Update and
2 2025 CEIP.¹¹

3
4 **Q. What are PSE’s current MW and equity targets for DR?**

5 A. PSE’s specific MW DR target for the 2025 winter cumulative peak, established during
6 PSE’s 2023 Biennial CEIP Update, is 86 MW.¹² In addition to this MW target, PSE is
7 also required to designate a minimum of 30 percent of the energy benefits from its DR
8 programs to Named Communities.¹³

9
10 **A. PSE’s MW Requirements for its DR Programs**

11
12 **Q. Has PSE taken appropriate steps to meet its DR MW target within this GRC?**

13 A. Yes. PSE has selected three turnkey DR proposals to meet its 86 MW goal for the 2025
14 winter cumulative peak.

15
16 **Q. Please explain how PSE meets its DR MW requirements?**

17 A. In 2022, PSE submitted a DER RFP for DR bidders to meet the clean energy needs
18 established in the 2021 CEIP and 2021 Integrated Resource Plan (IRP).¹⁴ PSE received
19 161 MW in turnkey DR proposals from a variety of bidders through this RFP. However,

¹¹ *Id.* Condition 22 at 80, “In the 2023 Biennial CEIP Update, PSE will include information regarding any planned DR programs for commercial and industrial customers as required by WAC 480-100-640(5) and (6) as well as information regarding the expected cost-effectiveness of these programs,” and Condition 23 at 80, “PSE must include a narrative in the 2023 Biennial CEIP update and 2025 CEIP describing anticipated impacts on customer benefits and burdens from DR programs.”

¹² Archuleta, Exh. GA-7 at 2.17.

¹³ Order 08, Condition 20 at 75.

¹⁴ See Archuleta, Exh. GA-5 (PSE’s 2022 DER RFP); Archuleta, Exh. GA-6 (PSE’s 2022 DER RFP Proposal Summary).

1 only three bidders¹⁵ were selected due to their cost-effectiveness and the lack of overlap
2 between their customer segments. These three selected third-party implementers are now
3 contracted to provide PSE's DR programs and achieve PSE's 86 MW target.¹⁶
4

5 **Q. Why is it important that there is minimum overlap between customer segments?**

6 A. Overlap between residential customer segments would lead to multiple DR implementors
7 targeting the same customers through their thermostat manufacturer. When asked if PSE
8 could select bidders with overlapping customer segments, PSE stated that while its
9 commercial and industrial DR is capable of some overlap, residential DR customers
10 enroll through the thermostat manufacturer and not the aggregator, thus PSE deemed the
11 residential customer overlap a significant enough issue to exclude certain programs for
12 the short-list.¹⁷
13

14 **B. PSE's Equity Requirements for its DR Programs**
15

16 **Q. Does PSE meet its DR equity requirements within this GRC?**

17 A. Staff does not believe PSE has provided enough explanation within its GRC testimony,
18 nor backstops within its contractual language, to ensure that the Company will achieve
19 the equity requirement contained in Condition 20 to the Commission's Order approving

¹⁵ AutoGrid was selected to implement PSE's Flex Smart, Flex Rewards, and aspects of BDRP; Oracle was selected to implement PSE's Flex Events; and Enel X was selected to implement aspects of PSE's BDRP.

¹⁶ See Archuleta, Exh. GA-1T at 8-9.

¹⁷ Koenig, Exh. PK-2.

1 its 2021 CEIP, that 30 percent of the energy benefits flow from its DR programs directly
2 to Named Communities.

3
4 **Q. What are “Named Communities” and why must PSE meet the 30 percent
5 benchmark?**

6 A. Named Communities is an umbrella term that refers to both highly impacted communities
7 and vulnerable populations.¹⁸ In alignment with Order 08, Condition 20, of UE-210795
8 PSE’s DR requirement is to “designate for Named Communities a minimum of 30% of
9 the energy benefits of its DER solar, DER storage, DR, and EE programs.”¹⁹ According
10 to the Legislature’s findings in passing CETA, it is in the public interest that there be
11 “equitable distribution of energy benefits and reduction of burdens to vulnerable
12 populations and highly impacted communities.”²⁰ By delivering on this 30 percent
13 benchmark required by the Commission, PSE will be taking a significant step to lowering
14 the energy burden²¹ of Named Communities customers and, in turn, significantly address
15 the four tenants of Energy Justice - Recognition, Procedural, Distributive, and Restorative
16 Justice. The four tenants of Energy Justice are discussed in further detail in the testimony
17 of Staff witness Harmon.²²

18
19 **Q. Does PSE demonstrate that its current suite of DR programs will meet its minimum
20 DR equity requirement?**

¹⁸ Order 08 at 2.

¹⁹ *Id.* Condition 20 at 75.

²⁰ RCW 19.405.010(6).

²¹ RCW 19.405.020(17) “*Energy burden*” means the share of annual household income used to pay annual home energy bills.”

²² See Harmon, Exh. BLH-1T at 2.

1 A. No. Witness Archuleta’s testimony does not provide any concrete details as to how PSE
2 plans to have its DR programs provide over 30 percent of energy benefit to Named
3 Communities customers. Additionally, there is inconsistency within the testimony
4 regarding the nature of the 30 percent requirement. The testimony states that “the [Flex
5 Event] program is intended to **reach** over 30 percent of named communities customers
6 with no associated customer costs.”²³ This language is inconsistent with PSE’s
7 obligation, which requires PSE to provide Named Communities customers with 30
8 percent of the energy benefits, not simply to ‘reach’ 30 percent of Named Communities
9 customers.

10

11 **Q. How does Staff interpret the requirement to provide 30 percent of energy benefits to**
12 **Named Communities?**

13 A. Staff interprets the 30 percent of energy benefits to Named Communities specification to
14 require that PSE ensure Named Communities receive that percentage, or more, of the
15 energy benefits from the aggregate of the output of its DR programs. According to PSE,
16 energy benefit is measured through peak curtailment during a DR event and is measured
17 in MWs as well as incentives paid to customers.²⁴ Staff believes that by achieving this 30
18 percent requirement, PSE will move toward achieving its CETA equity goals while
19 benefiting the overall public interest.

20

21

²³ Archuleta, Exh. GA-1T at 11:8-9 (emphasis added).

²⁴ Koenig, Exh. PK-3.

1 **Q. How does PSE propose to meet its DR-related equity obligations?**

2 A. The testimony of witness Archuleta showcases a series of action items meant to prioritize
3 DR participation in Named Communities. PSE states that, beginning in 2023, it has
4 prioritized DR participation in Named Communities by implementing the following
5 “action plan”: 1) providing Wi-Fi-capable smart thermostats, line voltage-connected
6 thermostats, and hot water CTA-2045 water heater modules to customers to participate in
7 Flex Smart; 2) rolling out Flex Events to Named Communities as of August 2023; and 3)
8 co-deployment with PSE’s Low-Income Weatherization and Efficiency Boost programs
9 in 2024 to expand accessibility of DR programs through existing channels.²⁵ However,
10 these items do not specifically target Named Communities and they are insufficient in
11 meeting PSE’s equity obligation of providing 30 percent of energy benefits to Named
12 Communities.

13
14 **Q. Why is PSE’s DR equity action plan insufficient to meet the 30 percent
15 requirement?**

16 A. None of the action items PSE presented in its action plan will substantially contribute to
17 PSE’s 30 percent requirement because none of the items specifically target, or provide
18 direct energy benefits to, Named Communities. All of PSE’s action items are available to
19 *all* PSE customers, regardless of if they are within a Named Community or not. And none
20 of the items provide a specific outline as to how PSE will increase the amount of energy
21 benefits to Named Communities. While PSE states that it plans on encouraging Named
22 Community customer participation in DR by utilizing Direct Outreach and Leveraging

²⁵ Archuleta, Exh. GA-1T at 16:4-20.

1 Existing Resources (i.e., presentations to advisory groups),²⁶ PSE does not showcase any
2 Named Community specific programs that will aid in quantitatively achieving the 30
3 percent requirement.
4

5 **Q. Are there any PSE DR programs that specifically target or incentivize Named**
6 **Communities?**

7 A. No. When asked directly if there are programs that are not available to all PSE customers
8 and only available to Named Communities customers, PSE stated “No, all programs are
9 available to all customers who meet eligibility requirements (i.e., those with AMI meter
10 installed and who heat or cool their home with PSE electricity).”²⁷ When asked when
11 direct outreach to Named Communities will begin, as well as the quantitative metrics
12 regarding the number of Named Community customers PSE plans to directly contact for
13 DR participation, PSE did not have a clear response, stating “[PSE] will direct targeted
14 outreach to named communities no later than the fourth quarter of 2024. PSE’s outreach
15 plan is currently under development, and the quantitative metrics requested are not
16 available.”²⁸
17

18 **Q. Does PSE’s contractual language elaborate on how it will meet the minimum DR**
19 **equity requirement?**

20 A. No. PSE does not explain how it plans on targeting, measuring, and achieving the 30
21 percent energy benefit requirement for Named Communities in its PPAs. While there are

²⁶ Archuleta, Exh. GA-1T at 17:3-13.

²⁷ Koenig, Exh. PK-3.

²⁸ Koenig, Exh. PK-5.

1 contractual terms in its Demand Response Agreements²⁹ addressing the 30 percent
2 standard, there is no further elaboration beyond that language to illustrate how the
3 standard will be achieved. Furthermore, within PSE’s 2023 Biennial CEIP Update, PSE
4 stated that “To ensure a minimum threshold of 30 percent energy benefits is met across
5 DR programs, PSE is working with its selected DR vendors to ensure Named
6 Communities outreach, recruitment, and engagement is a priority and committed to in
7 agreements with selected vendors.”³⁰ However, in all three of PSE’s Demand Response
8 Agreements with AutoGrid, Oracle, and Enel X,³¹ PSE has not sufficiently illustrated
9 how it is working with its selected DR vendors to achieve this 30 percent energy benefit
10 requirement. None of the contractual language details how the 30 percent standard will be
11 accomplished.

12
13 **Q. Does Staff have any recommendations to ensure benefits from DR programs will**
14 **flow equitably to Named Communities?**

15 A. Yes. Staff has two recommendations. First, Staff proposes that PSE develop and submit
16 an action plan to provide over 30 percent of DR energy benefit to Named Community
17 customers. This action plan will be submitted as a compliance item to the Commission
18 and should include how PSE plans to quantitatively measure this 30 percent of energy
19 benefit requirement and how PSE will enforce this energy benefit goal on its selected

²⁹ See Archuleta, Exh. GA-13C at 39 for an example of the only Demand Response Agreement language between PSE and Enel X that addresses the 30 percent requirement. “*Seller’s work with PSE to ensure at least 30% of the net energy benefit to customers is applied to named communities and vulnerable populations. PSE will work with Seller to identify specific Seller-provided metrics related to this requirement.*”

³⁰ *In re Puget Sound Energy’s 2021 Clean Energy Implementation Plan*, Docket UE-210795, Revised 2023 Biennial CEIP Update at 5.12, (Nov. 20, 2023).

³¹ See Archuleta, Exhs. GA-9C, GA-10C, and GA-13C.

1 third party implementors. Secondly, Staff is proposing an alternative DR PIM which
2 would better prioritize Named Communities and equity for PSE’s DR programs. This
3 alternative PIM is further explained in Section IV of this testimony.
4

5 **Q. Should the Commission allow for DR PPA recovery?**

6 A. Yes. Staff recommends the Commission allow PSE recovery of the DR PPAs, which PSE
7 selected to meet the 2025 winter cumulative peak DR goal of 86 MW and allow PSE to
8 earn a return on these DR PPAs.³²
9

10 **IV. PERFORMANCE INCENTIVE MECHANISM**
11

12 **Q. What is a Performance Incentive Mechanism or PIM?**

13 A. PIMs are regulatory mechanisms that act as financial incentives for utilities to achieve
14 certain outcomes, rather than being solely motivated by “business as usual” activities.
15 The Renovate Initiative has described PIMs as “regulatory mechanisms that provide
16 incentives for utilities to achieve certain outcomes...with a financial reward or penalty
17 tied to their achievement or lack thereof by the utility. They can operate incrementally to
18 traditional cost of service ratemaking or as an element of a PBR [Performance-Based
19 Ratemaking] framework...”³³ Furthermore, in the Commission’s Interim Policy
20 Statement Addressing Performance Measures and Goals, Targets, Performance

³² See McGuire, Exh. CRM-1T at 78-80. The return should be calculated at the Company’s authorized cost of debt rather than at its authorized rate of return.

³³ Smart Electric Power Alliance, Renovate Best Regulatory Practices “Toolkit” Series: Performance-Based Regulation – Part 3 (2020) at 9, available at: <https://sepapower.org/resource/renovate-best-regulatory-practice-toolkit-series-performance-based-regulation-part-iii/>.

1 Incentives, and Penalty Mechanisms (Interim Policy Statement), the Commission states
2 that “PIMs with rewards are intended to recognize exemplary performance or incent
3 innovative solutions toward the state’s energy sector goals.”³⁴ While the implementation
4 of PIMs is relatively new to Washington, the incentive structure of a PIM has the
5 capability to significantly influence a utility to achieve the equity and DR goals required
6 by CETA.

7
8 **Q. What is the current DR PIM in place for PSE?**

9 A. PSE’s current DR PIM, which was approved in the previous PSE GRC, is based on the
10 DR target of 40 MW by 2024 with an initial reward threshold that activates at 105
11 percent of the DR target.³⁵ The initial reward is a percentage of DR program costs equal
12 to PSE’s approved weighted average cost of capital (WACC). The second reward
13 threshold activates if PSE exceeds 115 percent of the DR target, with the reward
14 increasing to 15 percent of DR program costs. No additional reward is provided for
15 achievement levels above 150 percent of the target, and the incentive provided by this
16 DR PIM shall not exceed \$1 million over the course of the 2022 multiyear rate plan,
17 ending in 2024.

18
19 **Q. Does PSE propose changes to the DR PIM in this case?**

20 A. Yes. PSE proposes updating the PIM target to 149 MW by the end of the November
21 2026-2027 (Winter Season). PSE is also proposing to remove the limit on additional

³⁴ *In re a Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Rate Making*, Docket U-210590, Interim Policy Statement at 12 (April 12, 2024).

³⁵ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-220066, UG-220067 & 210918, Order 24/10 at 25-31. (Dec. 22, 2022) (2022 PSE GRC Order).

1 rewards for achievement levels beyond 150 percent of the target and increase the \$1
2 million cap from the last GRC to \$3 million in this case.³⁶

3
4 **Q. Why is PSE proposing a DR PIM cap increase to \$3 million?**

5 A. When asked to explain PSE’s rationale for increasing the PIM incentive cap, PSE stated
6 that “The PIM incentive amount is related to the overall program cost. As the CEIP MW
7 targets increase, so do the program costs.”³⁷

8
9 **Q. Does Staff support PSE’s proposed PIM MW target change?**

10 A. No. When explaining the basis for the updated target, PSE stated that “PSE’s contracted
11 winter season DR MWs for 2026 is the basis for the proposed PIM target of 149. This
12 represents a significant (73.25 percent) increase over the 86 MW 2025 CEIP target.”³⁸
13 PSE provides no further data or narrative explanation to support the target update. While
14 Staff agrees that an increase to the PIM MW target may be warranted, PSE provides no
15 justification or documentation to support the proposed increase to 149 MWs.

16
17 **Q. Does Staff have an alternative PIM MW target?**

18 A. Yes, the PIM MW target should be 207 MWs. This target is based on the Incremental
19 Resource Additions of DR for years 2024-2026 in PSE’s 10-year Annual Incremental
20 Resource Additions Preferred Portfolio, which was submitted in PSE’s 2023 Electric

³⁶ Archuleta, Exh. GA-1T at 20.

³⁷ Koenig, Exh. PK-4.

³⁸ Archuleta, Exh. GA-1T at 20:14-16.

1 Progress Report.³⁹ This target is more appropriate than the updated target proposed by
2 PSE because 1) it's based off PSE's own 10-year outlook for its preferred portfolio
3 resource mix, as opposed to the 149 MW target which has no basis at all; and 2) it
4 prevents PSE from being financially incentivized to achieve a DR MW threshold that it
5 would have accomplished regardless of the PIM. Additionally, this alternative target will
6 better incentivize PSE to work toward its eventual DR requirement of achieving annual
7 DR equal to, or greater than, 10 percent of winter and summer peak electric demand, as
8 required by House Bill 1589.⁴⁰

9
10 **Q. Does Staff support the rest of PSE's proposed PIM changes?**

11 A. In part. Staff agrees with PSE's justification regarding increasing the PIM incentive cap
12 to better align with overall program cost. However, as explained in Section III, Staff
13 believes that PSE must prioritize the equity requirement of providing over 30 percent of
14 DR energy benefit to Named Community customers. The language in the Commission's
15 Interim Policy Statement supports this, clearly identifying "advancing equity in utility
16 operations" as one of its four overarching goals regarding performance incentives.⁴¹
17 While PSE's proposed PIM changes are similar to the previously approved PIM metrics
18 from the last GRC, Staff recommends a reworking of the PIM in order to substantially
19 incentivize PSE to achieve its equity related requirements.

20

³⁹ The 207 MW target is the sum of 71 MWs, 65 MWs, and 71 MWs for years 2024, 2025, and 2026 respectively, as shown in PSE's 2023 Electric Progress Report, Filed March 31, 2023, in Docket UE-200304, Table 2.2 at 2.2.

⁴⁰ See Laws of 2024, ch. 351, § 3(4)(g). Codified as RCW 80.86.020(4)(g).

⁴¹ *In re a Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Rate Making*, Docket U-210590, Interim Policy Statement at 5 (April 12, 2024).

1 **Q. What does Staff recommend for PSE’s DR PIM proposal?**

2 A. Staff recommends that the Commission forgo PSE’s proposed DR PIM in favor of Staff’s
3 alternative DR PIM proposal, which would better address PSE’s equity requirement of
4 providing over 30 percent of energy benefit to Named Community customers.⁴²

5
6 **Q. Does Staff have an alternative DR PIM proposal?**

7 A. Yes. Staff has developed an alternative DR PIM proposal that builds DR equity into the
8 mechanism’s incentive structure. Staff based its proposed PIM on two distinct metrics, 1)
9 the percent of energy benefits⁴³ to Named Communities, as determined by the action plan
10 proposed in Section II of this testimony, and 2) the percent of the 207 MW goal achieved.

11
12 **Q. How would incentives be structured under Staff’s proposed DR PIM?**

13 A. Staff’s DR PIM incentive will be a portion of DR program costs equal to the average of
14 three ratios:

- 15 • Ratio 1: The percent of **additional** DR energy benefits going to Named
16 Communities above the required 30 percent threshold.
- 17 • Ratio 2: The percent of **additional** DR MWs acquired beyond Staff’s
18 recommended 207 MW target.
- 19 • Ratio 3: PSE’s WACC percentage, as determined by the Commission in this case.

20

⁴² See Order 08, Condition 20.

⁴³ See Exh. PK-3, PSE defines energy benefit as “Energy benefit is measured through peak curtailment during a Demand Response (DR) event measured in MWs as well as incentives paid to customers.”

$$1 \quad \text{DR PIM} = \text{DR Program Costs} * \left(\frac{\text{Percent of Additional Named Community Benefits} + \text{Percent of Additional DR MWS} + \text{PSE's WACC \%}}{3} \right)$$

2

3 **Q. In terms of timing, when will Staff’s proposed DR PIM incentive activate?**

4 A. Staff’s proposed DR PIM incentive will only activate if PSE demonstrates that it has
 5 achieved more than the 207 MW DR target and has provided more than 30 percent of
 6 energy benefits to Named Communities. As an example of this new DR PIM, PSE would
 7 receive a proportion of its DR program costs if 1) PSE demonstrates that it achieves in
 8 providing **over** 30 percent of energy benefits to Named Communities (above the 30
 9 percent target already required), and 2) if PSE achieves **over** its 207 MW DR target. If
 10 PSE fails to demonstrate that it has achieved either of its required metrics (below 30% of
 11 benefits to Named Communities or below the 207MW threshold), the PIM incentives will
 12 be \$0.

13

14 **Q. Is there any incentive cap in Staff’s alternative DR PIM proposal?**

15 A. Yes. Staff’s proposed incentive cap is \$3 million. Additionally, if PSE does receive a
 16 PIM incentive, the DR that counts toward the PIM must be cost effective⁴⁴ including

⁴⁴ RCW 80.86.010(5): ““Cost-effective” means that a project or resource is, or is forecast to: (a) Be reliable and available within the time it is needed; and (b) Reduce greenhouse gas emissions and meet or reduce the energy demand or supply an equivalent level of energy service to the intended customers at an estimated long-term incremental system cost no greater than that of the least-cost similarly reliable and available alternative project or resource, or any combination thereof, including the cost of compliance with chapter 70A.65 RCW, based on the forward allowance ceiling price of allowances approved by the department of ecology under RCW 70A.65.160.”

costs, benefits, and the PIM incentive itself.⁴⁵ A breakdown of Staff’s alternative DR PIM can be seen in Table 1 below.

Table 1: Staff Recommended Alternative DR PIM Structure

% of Additional DR for Named Communities above 30% Achieved	% of Additional DR above 207MW Achieved	PIM Reward
0%	0%	\$0
Greater than 0%	0%	\$0
0%	Greater than 0%	\$0
Greater than 0%	Greater than 0%	$\left(\frac{\text{Sum of three Ratios}}{3}\right) * \text{DR program costs}$

Q. Can Staff provide a detailed hypothetical example for illustrative purposes?

A. Yes, a hypothetical example of the PIM is as follows:

- Hypothetical Ratio 1: PSE achieves 40 percent of DR energy benefits to Named Community customers (an additional **10%** over the 30% requirement).
- Hypothetical Ratio 2: PSE achieves 260MW DR out of the 207 MW target established (an increase of 53MWs, or **25.60%**).
- Hypothetical Ratio 3: PSE’s hypothetical WACC% = **7%**
 - Hypothetical Calculation:

$$\text{DR PIM} = \text{DR Program Costs} * \left(\frac{10\% + 25.60\% + 7\%}{3}\right)$$

$$\text{Hypothetical DR PIM} = \underline{\underline{14.2\% \text{ of DR Program Costs.}}}$$

Q. How will PSE demonstrate achievement of Staff’s recommended PIM?

A. Staff envisions that demonstration of achievement within this DR PIM would include an annually filed report to showcase 1) if PSE was able to achieve providing over 30 percent

⁴⁵ With respect to WAC 480-100-610(4)(a), “Pursue all cost-effective, reliable, and feasible conservation and efficiency resources and demand response;” a DR portfolio **must** be cost-effective.

1 of DR energy benefits to Named Communities, 2) if PSE was able to achieve above the
2 207 MW DR threshold, and 3) if both requirements are met, what PSE's calculated DR
3 PIM incentive would be. This report should also include a third-party evaluation to report
4 on program achievements as they relate to the DR PIM.

5
6 **V. PROPOSED METRIC CALCULATION CHANGES**

7
8 **Q. Is PSE proposing any metrics changes within this GRC?**

9 A. Yes. PSE is proposing multiple metrics changes within this GRC.⁴⁶

10
11 **Q. Which metrics changes are being addressed in this testimony?**

12 A. The testimony of Aaron August proposes multiple changes relating to DER and Customer
13 Satisfaction metrics and the testimony of Gilbert Archuleta proposes changes to the
14 Demand Response metrics.⁴⁷

15
16 **Q. Are there any other metrics changes being proposed by PSE that Staff is
17 addressing?**

18 A. Yes. PSE is proposing new metrics regarding Energy Burden Efficacy. This metric is
19 discussed in further detail in the testimony of Staff witness Harmon.⁴⁸

20
21

⁴⁶ See Steuerwalt, Exh. MS-1T at 47-48.

⁴⁷ August, Exh. AAA-1T at 28-35; Archuleta, Exh. GA-1T at 14-15.

⁴⁸ See Harmon, Exh. BLH-1T at 23-28.

1 **Q. Are there any additional metrics being proposed by Staff?**

2 A. Yes. As proposed by Staff witness McGuire, Staff recommends that the Commission
3 order PSE to report on six additional affordability metrics.⁴⁹ Additionally, as proposed by
4 Staff witness Harmon, Staff recommends that PSE adopt an additional metric ‘*Standard*
5 *Deviation of Energy Burden Efficacy*’ to further address energy burden efficacy.⁵⁰

6

7 **A. Proposed Metrics Changes for DER**

8

9 **Q. What metrics changes is PSE proposing relating to DER?**

10 A. PSE is proposing to alter the metric ‘*Number of customers served by PSE’s DER*
11 *programs*’ to roll up DER program participation into one total number of customers for
12 all DER programs within a calendar year.⁵¹ PSE is also proposing to alter the metric ‘*The*
13 *capacity provided through each of PSE’s DER programs*’ to report on capacity, not
14 energy, and roll up each DER programs capacity into one total for all programs.⁵²

15

16 **Q. Does Staff agree with PSE’s proposal to alter the metric ‘*Number of customers*
17 *served by PSE’s DER programs*’ to roll up DER program participation into one total
18 **number of customers for all DER programs within a calendar year?****

19 A. No. Staff does not agree with this change and does not accept PSE’s justification for this
20 change. While PSE claims that this metric change will “simplify the reporting

⁴⁹ See McGuire, Exh. CRM-1T at 17.

⁵⁰ Harmon, Exh. BLH-1T at 27-28.

⁵¹ August, Exh. AAA-1T at 30.

⁵² *Id.* at 31.

1 structure,”⁵³ Staff is concerned that by summing up all customers served throughout all of
2 PSE’s DER programs in a calendar year, it may misconstrue the amount of participation
3 for each individual DER program. Additionally, the Interim Policy Statement states that
4 the metric for ‘Equity in DER Program Enrollment’ can be measured as the amount of
5 Named Community customers divided by the “total customers enrolled in **each**
6 program.”⁵⁴ Therefore, the metric ‘*Number of customers served by PSE’s DER*
7 *programs*’ should also measure each individual DER program, and not the sum of all
8 combined DER programs.

9
10 **Q. Does Staff agree with PSE’s proposal to alter the metric ‘*The capacity provided***
11 ***through each of PSE’s DER programs*’ to roll up DER capacity into one total**
12 **number for all DER programs within a calendar year?**

13 A. No. Staff does not agree with this change, nor PSE’s justification for this change. PSE
14 again claims that this metric change will “simplify the reporting structure.”⁵⁵ Staff is
15 concerned that by summing up all nameplate capacity throughout all of PSE’s DER
16 programs in a calendar year, it may misconstrue the amount of nameplate capacity
17 provided for each individual DER program.

18
19 **Q. Does Staff agree with PSE’s proposal to alter the metric ‘*The capacity provided***
20 ***through each of PSE’s DER programs*’ to eliminate the energy calculation and only**
21 **reporting on capacity, not energy?**

⁵³ *Id.* at 30:20.

⁵⁴ *In re a Proceeding to Develop a Policy Statement Addressing Alternatives to Traditional Cost of Service Rate Making*, Docket U-210590, Interim Policy Statement at 24 (April 12, 2024) (emphasis added).

⁵⁵ August, Exh. AAA-1T at 31:18-19.

1 A. Yes. Staff agrees with PSE’s proposal regarding this change to the metric ‘*The capacity*
2 *provided through each of PSE’s DER programs,*’ eliminating the energy calculation and
3 only reporting on capacity, not energy. PSE states that unless it requires customers to
4 install production meters that can measure *all* energy generated (not just what’s returned
5 to the grid), there would be in “inherent inaccuracies” in the metric measurement. Thus,
6 Staff agrees with PSE that the metric should only measure capacity, and not energy.

7
8 **Q. What does Staff propose regarding these DER metrics changes?**

9 A. Staff proposes that PSE should be allowed to update the metric ‘*The capacity provided*
10 *through each of PSE’s DER programs*’ to only report on capacity, and not energy.
11 Further, Staff recommends that all other aspects of PSE’s proposed DER metrics changes
12 should not be implemented.

13
14 **B. Proposed Metrics Changes for Customer Satisfaction**

15
16 **Q. What Metrics changes is PSE proposing relating to Customer Satisfaction?**

17 A. PSE is proposing to alter the metric ‘*Successful billing accuracy*’, which measures “the
18 percentage of successful automated billing data received.”⁵⁶ PSE is proposing to alter this
19 metric by 1) removing the averaging monthly actuals for annual cumulative of all reads
20 and 2) rolling up gas and electric reads to one total.⁵⁷

21
22

⁵⁶ August, Exh. AAA-1T at 29.

⁵⁷ Bamba, Exh. RBB-1T at 32-33; August, Exh. AAA-1T at 29.

1 **Q. Does Staff agree with these Customer Satisfaction metrics changes?**

2 A. Partially. While Staff agrees with PSE that using annual cumulative numbers instead of
3 average monthly actuals will lead to more accurate accounting of network performance
4 and allow PSE to better identify trends of concern around billing accuracy,⁵⁸ PSE does
5 not provide justification for rolling up gas and electric automated meter reads into one
6 total for billing purposes.

7
8 **Q. What does Staff propose regarding these Customer Satisfaction Metrics changes?**

9 A. Staff proposes that PSE should be allowed to update the metric '*Successful billing*
10 *accuracy*' to remove the averaging monthly actuals for annual cumulative of all reads.
11 Staff asserts that PSE should not be allowed to update this metric to roll up gas and
12 electric reads to one total.

13
14 **Q. Are there any other aspects of PSE's Customer Satisfaction metrics that Staff has**
15 **concerns about.**

16 A. While not proposing a change at this time, PSE has emphasized that it is considering
17 modification to metric SQI-5 '*Calls Answered by a Live Representative Within 60*
18 *Seconds of Request*'. The proposed change would be to measure the percentage of
19 customer calls resolved by the customer care center in a single interaction, rather than
20 measuring the time to answer a call.⁵⁹ Staff has no concerns at this time regarding PSE's
21 proposed metric change to SQI-5. Additionally, while SQI-10, '*Percent of Appointments*
22 *Kept*', is not being put forward for any proposed metric changes in this GRC, Staff would

⁵⁸ Bamba, Exh. RBB-1T at 33.

⁵⁹ August, Exh. AAA-1T at 32.

1 like to emphasize that any future calculations for this metric should be inclusive of new
2 customer construction.

3
4 **C. Proposed Metrics Changes for Demand Response**

5
6 **Q. What additional metrics changes is PSE proposing relating to Demand Response?**

7 A. PSE is proposing changes to the DR metric '*Total Electric Peak Load Management*
8 *Savings*', which measures the annual MW reductions in PSE's resource adequacy need
9 that are attributable to all peak load reduction programs, excluding Energy Efficiency
10 programs. PSE is proposing to shift this metric from an annual measurement of MW
11 reduction to two seasonal measurements, a winter season from November to March and a
12 summer season from May to September.⁶⁰ PSE claims that the original metric, which
13 combined performance over an entire calendar year, did not account for seasonality or
14 that the winter season crosses over from one calendar year to the next. Additionally, PSE
15 emphasizes that each season has a separate system peak, and each peak is based off
16 different usage patterns.

17
18 **Q. Does Staff agree with these Demand Response metrics changes?**

19 A. Yes. Staff supports this change to the Total Electric Peak Load Management Savings
20 metric and finds it acceptable. This change would allow for measurements of DR savings
21 to better align with seasonal winter and summer peaking needs, and therefore be more
22 representative of the needs and challenges of specific seasons.

⁶⁰ Archuleta, Exh. GA-1T at 14, Table 4.

1 Q. Does this conclude your testimony?

2 A. Yes.