Agenda Date: February 22, 2024
Item Number: A1

**Docket:** **UE-231031**
Company: Puget Sound Energy

Staff: Joel Nightingale, Regulatory Analyst
Konstantine Geranios, Regulatory Analyst

## Recommendation

Issue an order allowing the revisions to Schedule 150 filed by Puget Sound Energy on January 18, 2024, to become effective February 29, 2024, on condition that:

1. PSE conduct a distributional equity analysis of the Schedule 150 tariff schedule using the framework developed in its distributional equity analysis pilot (as required by Condition 50 in UE-220066) and share the results of that study, and PSE's proposed next steps in a workshop with all interested persons no later than December 31, 2024.
2. PSE invite to the above-mentioned workshop, at a minimum, members of its Conservation Resources Advisory Group, Equity Advisory Group, and Low-Income Advisory Committee.

## Background

Puget Sound Energy (PSE or Company) filed with the Utilities and Transportation Commission (Commission) an update to its Schedule 150 (Net Energy Metering) tariff on December 20, 2023. Schedule 150 implements a net metering program consistent with Chapter 80.60 RCW Net Metering of Electricity.

On April 3, 1998, Governor Gary Locke signed into law Washington's Net Energy Metering policy which initially required electric utilities in the state to offer net energy metering to customers on a "first-come, first-served basis" until the cumulative capacity of such systems equals 0.1 percent of each utility's peak demand during 1996.[1] Table 1 shows how this threshold has changed in updates to the statute over time, culminating with the most recent update increasing it to 4 percent of 1996 peak demand.

*Table 1. Evolution of Net Energy Metering Threshold Over Time*

| **Year of RCW Update** | **Statutory Threshold** (as a percent of 1996 peak demand) | **Appx. PSE Threshold** (MW) |
|---|---|---|
| 1996 | 0.1% | 4.5 |
| 2006 | 0.25% | 11.2 |
| 2019 | 4% (or June 30, 2029) | 179.2 |

[1] Laws of 1998 c 318 § 1

Figure 1 shows the exponential growth of net metering systems (count) and cumulative capacity over time, from 11 systems in 2004 to more than 21 thousand systems and 175 MW by the end of 2023.

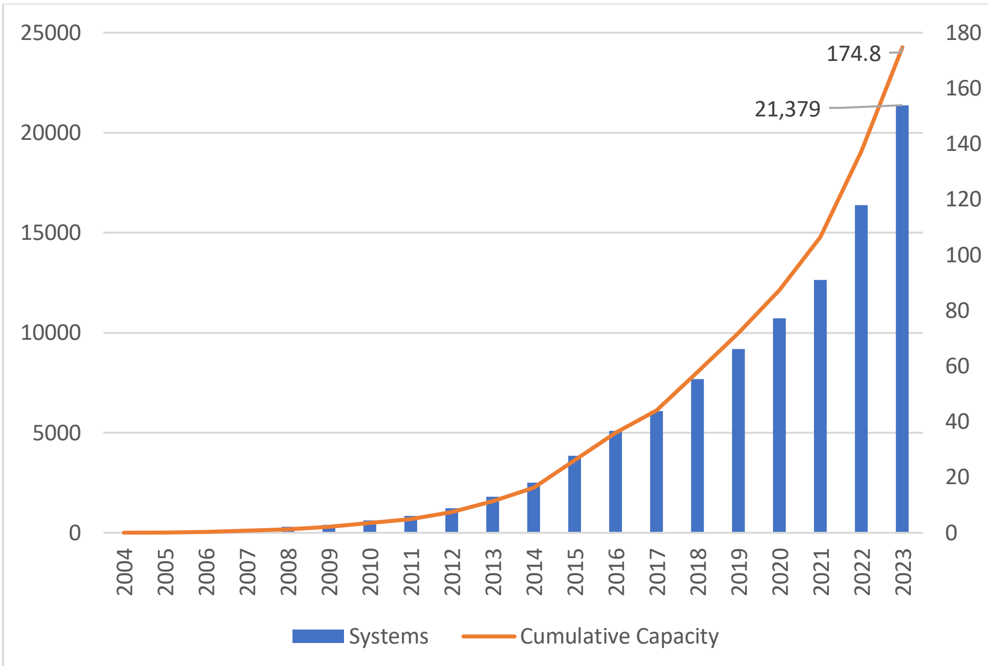


*Figure 1. Net Metering Customer Counts and Generating Capacity by Year*

In 2019, the Clean Energy Transformation Act (CETA) requires electric utilities to ensure an "equitable distribution of energy and nonenergy benefits and reduction of burdens to vulnerable populations and highly impacted communities."[2]

PSE filed its initial 2021 Clean Energy Implementation Plan (CEIP) on December 17, 2021, which included the Company's plan to file a successor to its net metering tariff in early 2024.[3]

The Company filed its 2023 Biennial CEIP Update on November 1, 2023, and expressed its plan to continue offering its net metering program after the cumulative generation on the Company's system surpassed the 4 percent threshold in statute.

On December 20, 2023, PSE filed this update to its net metering program tariff proposing to continue offering this service after it passes the 4 percent threshold in statute until at least December 31, 2025. PSE anticipates crossing the 4 percent threshold in the first quarter of 2024.

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[2] RCW 19.405.040(8)

[3] Docket UE-210795, Corrected 2021 Clean Energy Implementation Plan at 168 (Feb. 1, 2022).

On January 11, 2024, Commission staff (Staff) filed comments on PSE's 2023 Biennial CEIP. Update including concerns about the equity and cost implications of PSE continuing to offer its net metering program in its current form beyond what is required by law.

In response to discussions with Staff, PSE filed substitute tariff sheets on January 18, 2024, to delay the effective date until February 29, 2024, providing more time for discussion and analysis of the filing given the concerns Staff raised in comments on the Company's Biennial CEIP Update filing.

## **Discussion**

In this section, Staff discusses three important topics related to this filing: the statutory threshold in 80.60 RCW, PSE's engagement process related to this filing, and Staff's substantive concerns with the proposed tariff update.

*The Four Percent Statutory Threshold*
Staff stresses the significance of net metering capacity on PSE's system surpassing a threshold in statute. Statute requires that Washington utilities offer net metering programs on a "first-come, first-served basis until the earlier of either: (i) June 30, 2029; or (ii) the first date upon which the cumulative generating capacity of net metering systems equals four percent of the utility's peak demand during 1996."[4] After a utility meets one of those two criteria, the question of whether to offer net metering to new customers and on what terms becomes an open question for both the utility and the Commission.[5]

Staff understands that when a utility crosses this 4 percent threshold, that utility transitions from a period when it had a legal obligation to offer the strict net metering program outlined in 80.60 RCW to a new paradigm in which the onus lies on the utility to choose – and justify – how move forward. In this case, PSE's *choice* – as evidenced by this filing – is to continue its net metering program maintaining the status quo for at least the next two years. Staff does not believe that PSE has provided adequate analysis to justify this choice considering the Company's obligations under CETA's equity provisions.

*Process*
The engagement in this case has not been ideal. For most of the distributed energy resources (DER) programs PSE plans to implement, the Company (1) engages with its advisory groups, (2) includes programs in planning documents like its CEIP, (3) shares draft tariff language with members of relevant advisory groups and incorporates feedback, and only then (4) files tariff sheets for Commission approval. This progression from program concept to eventual implementation allows for thorough consideration of new programs or updates to existing programs.

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[4] RCW 80.60.020

[5] *See* Docket UE-230172, McGuire, Exh. CRM-1T at 66-70 (filed Sept. 14, 2023).

In the case of this net metering tariff update, Staff understands that PSE did not engage with any of its advisory groups on its plans for this program after reaching the 4 percent statutory threshold. The Company did not provide draft tariff language to its advisory groups either, which runs counter to the standard practice for other DER tariffs.[6] While PSE did include a section about its planned approach to net metering in its 2023 Biennial CEIP Update, the Company filed this tariff update on December 20, 2023, – about three weeks *before* comments on that plan were due to be filed (January 11, 2024) and *before* the Commission has taken action on that filing (Recessed Open Meeting scheduled for March 22, 2024). Staff continues to recommend early advisory group engagement.

*Substance*
Staff's substantive concerns are primarily related to the equity and cost impacts of PSE's net metering program. Staff addressed these concerns in our comments on PSE's Biennial CEIP Update,[7] but we provide a summary below:

1. **Equity**: The state's current Net Energy Metering statute was enacted before equity was a standard consideration As PSE's program crosses the threshold of what is strictly required by the Net Energy Metering statute, the Company must grapple with how this program does or does not support an equitable distribution of benefits and reduction of burdens[8] among CETA's Named Communities.
2. **Cost**: Retail rate compensation for excess solar production of net metered systems is quite generous when compared to PSE's own schedule of avoided costs.[9]

Staff previously noted, in comments and testimony, that distributed energy resources (DERs) – including distributed solar – are a powerful tool for realizing the equitable outcomes envisioned by CETA. The Commission's order approving PSE's 2021 CEIP acknowledges the power of DERs to enable distributional equity through conditions 20 and 21, which require PSE to designate minimum proportions of energy benefits from each DER tranche to Named Communities (30 percent) and customers in "deepest need," and to develop mechanisms to enable such distribution.[10]

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[6] In contrast to the present filing, PSE *did* conduct advisory group engagement including soliciting feedback on draft tariff language for its recent Residential Battery Energy Storage Systems and Distributed Solar Systems filings (UE-230827).

[7] Commission Staff Comments Regarding PSE's 2023 Biennial CEIP Update at 11, Docket UE-210795, Jan. 11, 2024.

[8] RCW 19.405.040(8)

[9] A recent study conducted by energy consultant E3 estimated that an example 7 kW net metered solar system in PSE service area has benefit-cost ratios of 0.60 (Societal Cost Test), 0.51 (Total Resource Cost) and 0.34 (Ratepayer Impact Measure). *Benefits and Costs of Net Energy Metering in Washington*, E3, Dec. 21, 2023.

[10] Final Order 08 at 75, Docket UE-210795, June 6, 2023.

In response to these conditions, PSE proposed in its Biennial CEIP Update – and in recent tariff filings – DER programs with increased incentives, minimum participation thresholds, or otherwise preferable terms for customers in Named Communities and/or income-eligible customers. PSE projects that 59 MW of this DER solar capacity will come from new net metered systems connected after PSE has passed the 4 percent statutory threshold, representing 74 percent of its 80-MW target.[11]

Given the current net metering program operates on a "first-come, first-served" basis, Staff is concerned about what this level of net metering uptake – without meaningful analysis of equity-related outcomes – would mean for PSE in meeting its requirements under conditions 20 and 21, and CETA's equity provisions more broadly. PSE has expressed to Staff that it intends to meet these requirements through a balanced portfolio of DER solar options. Staff provides Table 2 below to illustrate that portfolio in order of nameplate capacity.

[11] PSE estimates that capacity for all DER solar programs may reach 144 MW by 2025 but maintains a target of 80 MW in its 2023 Biennial CEIP Update.

*Table 2 – PSE's Existing and Planned DER Solar Programs: Expected Capacity by 2025 and Equity Provisions*[12]

| Resource | Capacity (2025) | Percent | Staff's understanding of Equity-related provisions |
|---|---|---|---|
| Net metering (Sch. 150) | 59 MW[13] | 41% | Strictly "first-come, first-served." No equity-related provisions, carve-outs, minimum designations, or increased incentives. |
| Community Solar (Sch. 134) | 50 MW | 35% | Minimum of 30% of shares dedicated to income-eligible participants. Up to two no-cost shares per income-eligible customer.[14] |
| Distributed Generation (from DSS RFP) | 9 MW (solar); 8.9 MW (hybrid solar) | 12% | TBD |
| Solar Export Rate (Sch. 667) | 13.6 MW | 9.4% | Incentives available to equity-focused customers to help cover up-front costs of solar systems (100 kW to 1 MW).[15] |
| Residential Rent-to-Own | 2 MW | 1.4% | TBD |
| Green Power Solar Grants | 1.5 MW | 1.0% | Grants available to nonprofits, public housing authorities and Tribal entities serving low-income and/or BIPOC community members. |
| **Total** | **144 MW** | | |

**<u>Interested Person Input</u>**
As of February 13, 154 consumer comments have come in related to this filing. Of these, 151 voiced support for the filing, while 3 were undecided. Several other comments came from organizations or companies connected to the solar industry. All of these comments expressed support for PSE's proposed Schedule 150 updates. Many of these commentors pointed out that the 4 percent threshold in statute is a minimum, not a limit, to net metered systems. Many also voiced concern about changing PSE's net metering tariff without a thorough and unbiased study,

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[12] Based on Table 5.11, PSE's Corrected 2023 Biennial CEIP Update at 5.20, Docket UE-210795, Nov. 20, 2023.

[13] PSE added about 68 MW of net metered capacity in 2022 and 2023 but estimates – with little explanation – that net metering capacity additions will slow in 2024 and 2025 to just 59 MW over these final 2 years of the CEIP compliance period.

[14] *See* Docket UE-230660, Cover Letter at 1-2 (filed Aug. 14, 2023).

[15] *See* Docket UE-230827, Schedule 667 at Sheet 667-C (filed Oct. 6, 2023).

pointing to the potential for a statewide "value of solar" study as a promising path forward. Finally, several of the comments suggested the study performed by E3 was biased or at least did not account for all the benefits of net metered solar.

**Statewide Discussions**

PSE, in its January 18 Cover Letter, and many commenters in this docket describe ongoing statewide conversations about the future of net energy metering, proposals in the legislature (namely, House Bill 1427), and the possibility of funding for a "value of solar" study.

Staff subscribes to the view that a cohesive statewide approach to the future of net metering would be a more desirable outcome than each utility taking a different approach after reaching the 4 percent threshold. In fact, Staff testified in PacifiCorp's recent rate case that "new enrollment in net metering should continue until the policy parameters for a long-term successor to net metering are developed through a policy proceeding or legislative action,"[16] stating our preferred venue for addressing this issue is not at the utility-by-utility level. This is one of the reasons Staff does not recommend the Commission reject PSE's proposed Schedule 150 update.

However, Staff does not believe the potential for future legislation relieves PSE of its obligations under current laws, which (1) *do not require* PSE to offer its net metering program after it passes the 4 percent threshold, and (2) *do require* that PSE meet CETA's clean energy standards equitably. With no guarantee of legislative action, Staff believes that the current regulatory framework places the onus on PSE to justify its decision once the statutory threshold is crossed.

Staff stresses our concern that without any conditions related to this filing, PSE may very well come back to the Commission in two years with a similar filing – and with similarly scant data and analysis of this program – to request approval of another extension of this service.

**Conclusion**

Issue an order allowing the revisions to Schedule 150 filed by Puget Sound Energy on January 18, 2024, to become effective February 29, 2024, on condition that:

1. PSE conduct a distributional equity analysis of the Schedule 150 tariff schedule using the framework developed in its distributional equity analysis pilot (as required by Condition 50 in UE-220066) and share the results of that study, and PSE's proposed next steps in a workshop with all interested persons no later than December 31, 2024.
2. PSE invite to the above-mentioned workshop, at a minimum, members of its Conservation Resources Advisory Group, Equity Advisory Group, and Low-Income Advisory Committee.

[16] Docket UE-230172, McGuire, Exh. CRM-1T at 21 (filed Sept. 14, 2023).