BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKETS UE-220066 & UG-220067 and UG-210918 (Consolidated)

RESPONSE TESTIMONY OF
ROSS Y. QUIGLEY (EXH. RYQ-1T)

ON BEHALF OF
THE ENERGY PROJECT

Low-Income Weatherization Issues

July 28, 2022
RESPONSE TESTIMONY OF ROSS Y. QUIGLEY (RYQ-1T)

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I. INTRODUCTION

Q: Please state your name and business address.
A: My name is Ross Y. Quigley. My business address is 3406 Redwood Avenue, Bellingham, WA 98225.

Q: By whom are you employed and in what capacity?
A: I am the Home Improvement Department Director at the Opportunity Council in Bellingham, WA, a Community Action Agency. I am currently also serving as the Acting Director of The Energy Project (TEP).

Q: How long have you been employed by the Opportunity Council?
A: I have been employed by Opportunity Council since 2009.

Q: Would you please summarize your professional background as it relates to low-income programs?
A: I have been working in weatherization and residential energy efficiency for over 13 years, with a background in residential construction prior to that. I have worked as a weatherization installer, an energy auditor, an efficiency program manager, and the managing director of a weatherization training center. For several years now, I have served on a number of statewide committees and task forces, including the Weatherization Advisory Committee and the Weatherization Policy Development Committee, both coordinated by the Department of Commerce. I also served on the Board of Directors for Habitat for Humanity’s Whatcom County Affiliate, from 2016 to 2020. I hold a Bachelor of Arts degree from Western Washington University.
Q: On whose behalf are you testifying?
A: I am testifying on behalf of The Energy Project (TEP), an intervenor in this proceeding, on behalf of the Community Action Partnership (CAP) organizations that provide low-income energy efficiency and bill payment assistance for customers in Puget Sound Energy’s (PSE) service territory. These agencies include: Byrd Barr Place; Community Action Council of Lewis, Mason, Thurston; Community Action of Skagit County; Hopelink; Hopesource; Metropolitan Development Council; Multi-Service Center; Kitsap Community Resources; Opportunity Council; Pierce County Community Action, and Snohomish County Community Action.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q: What is the scope of your testimony?
A: My testimony addresses two issues regarding the weatherization programs that provide assistance to low-income customers in PSE’s service territory.

Q: Could you please summarize your testimony?
A: My testimony addresses two topics: (1) the extension of the funding floor commitment for low-income weatherization programs that expires on December 31, 2022; and (2) the current cooperative effort under way with PSE to update the determination of actual measure costs used in the weatherization programs.

III. FLOOR FUNDING COMMITMENT

Q: Has PSE proposed any additional funding for the low-income weatherization program in this docket?
A: No.
Q: Is this a concern from TEP’s perspective?

A: No. Puget Sound Energy’s budget for low-income energy efficiency is established as part of the Biennial Conservation Plan (BCP). The Energy Project believes the level of funding set in PSE’s most recent BCP covering the period 2022-2023 is reasonable. For that reason, TEP is not recommending an increase in funding for low-income weatherization in this docket.

Q: What concern are you addressing on behalf of TEP in this docket with regard to funding?

A: I am addressing the advisability of an extension of the “floor funding” commitment currently in effect for PSE low-income weatherization.

Q: Please describe the current “floor funding” commitment.

A: Puget Sound Energy’s current commitment provides as follows:

Puget Sound Energy agrees to continue to fund low-income weatherization programs that the low-income agencies inform PSE they can feasibly achieve with an annual base funding level of no less than $4.43 million for Low-Income Weatherization Programs through December 31, 2022.\(^1\)

PSE has abided by this commitment since it was adopted in 2019\(^2\). A key part of the term is PSE’s long-standing commitment to continue to fund low-income weatherization programs that the low-income agencies inform PSE they can

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\(^2\)In the Matter of Puget Sound Energy’s Proposed Sale of a Non-Controlling Interest in Puget Holdings LLC, Final Order 06 (Corrected), Docket U-180680 (March 11, 2019), Appendix A to Multiparty Settlement Stipulation, ¶ 43.
feasibly achieve, in effect an agreement to fund without a set cap any feasible projects.

The second part of the commitment was to set a base funding level of $4.43 million to ensure that a minimum level of funding for low-income weatherization would be maintained. This two-part commitment expires on December 31, 2022.

Q: What is TEP’s recommendation regarding the “floor funding” commitment?
A: The Energy Project’s concern is that the commitment expires at the end of this calendar year on December 31, 2022. The Energy Project recommends that the “feasible project” commitment and the funding floor be extended for a reasonable period of time until the end of the next general rate case, which would likely be in 2025 or 2026 if the rate plan is approved. At that time PSE and other interested stakeholders could revisit the need for a further extension.

The Energy Project also recommends that the floor amount be updated. The current level of $4.43 million is now dated. As a comparator, PSE’s budget for low-income energy efficiency under its most recent BCP is approximately $7 million on an annual basis (electric and gas). The Energy Project recommends that the new annual baseline level in the commitment be increased to $5.5 million. This acts as a conservative “safety net” for the funding level.

Q: Why is this commitment important?
A: This commitment has provided the low-income agencies who provide weatherization services with a degree of certainty that a base level of funding will be available over time. This helps low-income weatherization agencies to plan
for the number of future projects they can undertake, and to hire the personnel for
the projects. In addition, the unrestricted commitment to fund all feasibly
achievable projects brought forward by agencies encourages weatherization
programs to pursue additional projects. Essentially, a forecast of stable and
steady funding is key in a program manager’s decision to invest in increased
future production capacity. Guaranteed minimum funding levels, several years
into the future, achieve the benefit of this type of solid forecast.

Ultimately, by helping increase production, this commitment helps to
increase weatherization of low-income housing stock. This, in concert with bill
assistance, works to improve the affordability of essential energy services and the
health and safety of low-income households. It will also help PSE to enhance and
strengthen efforts to pursue clean energy implementation goals under the Clean
Energy Transformation Act, and its energy efficiency targets its Biennial
Conservation Plans.

IV. ACTUAL MEASURE COSTS

Q: Please explain the term “actual measure cost”.

A: The actual measure cost is the amount it costs a program to achieve a completed
measure, whether through the program’s contractors or internal crew of laborers.

Q: How are actual measure costs determined?

This may vary by weatherization agency, but many agencies establish annual cost
agreements with their subcontractors. These cost agreements may be subject to
change during the course of the year if circumstances warrant adjustment. Abrupt
materials cost escalation and labor shortages are examples of reasons for mid-year
increases that programs have experienced in the course of the pandemic.

Ultimately, the total costs per measure are documented by local weatherization agencies as required by funding entities.

**Q:** How do actual measure costs fit into the low-income weatherization process?

**A:** Weatherization programs typically forecast future production by dividing the upcoming program year’s budget by average project costs for the prior year or prior two years’ costs. So recent actual measure costs have a direct impact on what level of production a local agency will target. Measure costs in turn affect the determination of weatherization incentive levels offered by PSE.

**Q:** Are there any current issues with actual measure costs?

**A:** Yes. There has been a concern that PSE’s incentive structure for weatherization is based on outdated information that does not reflect the current costs of actual construction. Generally, costs were last updated in 2015. Weatherization agencies have identified the updating of measure costs and incentives for PSE as a top priority. The practical effect of this is that weatherization agencies and contractors may not receive sufficient cost reimbursement to make projects economic. This is accentuated by recent inflationary pressures on costs.

As the gap between PSE-provided incentives and the actual cost of installing a measure grows, so grows the share of funding that a program must dedicate from other sources to that particular project. Over time this will have the impact of reducing the amount of most-flexible funding available to programs to address health and safety and repair need in the home. Many homes will be
deferred for weatherization if the share of flexible funding they demand is too
great to justify, or is simply too great for the available budgets.

It’s my understanding that PSE recognizes that today’s actual construction
costs are higher, in many cases much higher, than those that were used to set the
current incentive levels approximately seven years ago. We need to see incentive
levels that are informed by more current actual measure costs, which would lead
to higher incentive levels. If a complete study can’t be achieved in time for the
next incentive determinations, in lieu of local project data, it may be feasible to
use industry-level data or general economic indicators to estimate the impact of
inflation and other forces on the cost of construction.

Q: **Has there been any effort to address this problem?**

A: Yes. Puget Sound Energy and weatherization providers are aware of the problem
and a group of low-income weatherization providers have been working together
to update the actual measure costs. Puget Sound Energy is considering an
approach that would use economic indicators of inflation since 2015, for example,
Consumer Price Index changes, possibly as an interim measure, which would
yield some significant increases for incentive levels. Puget Sound Energy would
then also look to use data being developed by the Department of Commerce when
it becomes available. Discussions about this approach and methodology will be
ongoing with the weatherization stakeholders.

Q: **Do you have any comment about the timeline for the cost update process?**

A: Yes. The collaborative process involving PSE and the weatherization programs is
well under way, and parties have been meeting for about three months. It is
desirable that the process would result in having updated actual measure costs in place by January 1, 2023, in time for the next program year. This is a realistic goal in my opinion.

In addition, there should be a more regular process for updating measure costs in the future to avoid a repetition of the current situation. Surveys and cost updates should occur on a more regular basis to avoid the negative effects of outdated costs on weatherization production. The Energy Project would recommend that updates occur every two years, probably in conjunction with the BCP process. It appears that PSE may be supportive of this timing for updates to occur. This will be further reviewed in the stakeholder process as well.

V. SUMMARY OF THE ENERGY PROJECT’S LOW-INCOME WEATHERIZATION RECOMMENDATIONS

Q: What is The Energy Project’s recommendation regarding the “floor funding” commitment?

A: The Energy Project recommends that the Commission’s final order in this docket extend and update PSE’s existing commitment to maintain support for low-income weatherization as follows:

- PSE will continue to fund low-income weatherization programs that the low-income agencies inform PSE they can feasibly achieve with an annual base funding level of no less than $5.5 million for Low-Income Weatherization Programs through the end of PSE’s next general rate case.³

³ This recommendation does not affect any of the other weatherization commitments in Commitment 43, or other commitments approved in Docket U-210542.
Q: **What is TEP’s recommendation regarding the “actual measure costs”?**

A: The Energy Project recommends that the Commission’s final order in this docket direct PSE to continue work with its weatherization stakeholders to complete the update of actual measure costs in order to implement changes by January 1, 2023 for use in the 2023 program year and to develop a methodology for use thereafter for the next update. The Energy Project also recommends that the Commission direct PSE to conduct an update of measure costs every two years or other reasonable regular period determined with stakeholder input.

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

A: Yes.