

**Exh. JES-1T
Dockets UE-220066, UG-220067,
UG-210918
Witness: Jennifer E. Snyder**

**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*)**

In the Matter of the Petition of

PUGET SOUND ENERGY

**For an Order Authorizing Deferred
Accounting Treatment for Puget Sound
Energy's Share of Costs Associated with
the Tacoma LNG Facility**

TESTIMONY OF

JENNIFER E. SNYDER

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

***Advanced Metering Infrastructure (AMI) Benefits
Performance Based Regulation related to AMI
Demand Response Performance Incentive Mechanism and Metrics***

July 28, 2022

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LIST OF EXHIBITS

- Exh. JES-2 PSE Response to UTC Staff Data Request No. 188 - AMI Benefits Accrual
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- Exh. JES-4 PSE Response to UTC Staff Data Request No. 307 - AMI Implementation Plan Customer Costs

1 I. INTRODUCTION

2

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

4 A. My name is Jennifer Elizabeth Snyder, and my business address is 621 Woodland
5 Square Loop SE, Lacey, Washington, 98503. My business mailing address is P.O.
6 Box 47250, Olympia, Washington, 98504-7250. My business email address is
7 Jennifer.snyder@utc.wa.gov.

8

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

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

13

14 **Q. How long have you been employed by the Commission?**

15 A. I have been employed by the Commission since 2013.

16

17 **Q. Please state your qualifications to provide testimony in this proceeding.**

18 A. I have a Master's degree in Environmental Studies with an emphasis in Energy
19 Policy and a Bachelor of Science degree, both from The Evergreen State College. I
20 completed Public Utilities Reports Guide's "Principles of Public Utilities Operations
21 and Management" in October 2016. I attended New Mexico State University's rate
22 case basics workshop in May 2016, the National Association of Regulatory Utility
23 Commissioners' (NARUC) Annual Regulatory Studies Program intermediate course

1 in August 2016, the International Energy Program Evaluation Conference in 2017
2 and 2019, as well as numerous other sector-specific workshops, trainings, and
3 conferences. Most recently I have attended the NARUC Regulatory Training
4 Initiative courses on Benefit-Cost Analysis for Distributed Energy Resources in May
5 2022 and Equity and Energy and Environmental Justice in State Public Utility
6 Commission Decisions in June 2022. I represented Washington at the National
7 Governor's Association Energy Efficiency Experts Roundtable in 2018 and
8 presented on cost-benefit analysis at the Efficiency Exchange Conference in 2019.

9 As a Regulatory Analyst, I am responsible for the development of
10 Commission Staff (Staff) recommendations concerning tariff filings, conservation
11 plans, integrated resource plans, and clean energy implementation plans by regulated
12 companies for presentation to the Commission at open public meetings and subject
13 to adjudication.

14
15 **Q. Have you testified previously before the Commission?**

16 A. Yes. With respect to Puget Sound Energy (PSE or Company), I have filed testimony
17 in support of settlement for Microsoft's special contract, Docket UE-161123, and on
18 the prudence of acquiring innovative technology in PSE's 2017 general rate case
19 (GRC), Dockets UE-170033 and UG-170034. I have also sponsored testimony on
20 various issues, including conservation program design, in Avista Corporation's
21 (Avista) 2017 GRC, Dockets UE-170485 and UG-170486; and Cascades 2017 GRC,
22 Docket UG-170929.

- Exh. JES-4 shows that PSE did not consider participant costs when developing the AMI Implementation Plan.

III. ADVANCED METERING INFRASTRUCTURE BENEFITS

A. Background of AMI Investment

Q. Please provide background on the Company's AMI investment.

A. The Company began replacing its Automatic Meter Reading (AMR) system with AMI across its electric and gas service territory in 2016. PSE first requested a determination of prudence and approval for recovery in rates of investments related to AMI in the Company's 2019 GRC.¹ In that case, Public Counsel recommended the Commission disallow recovery of the AMI investment based on a significant disparity between program costs and benefits.² Staff disagreed and recommended the Commission reject Public Counsel's request.³

Q. What did the Commission decide about the AMI investment in the 2020 Order?

A. The Commission reserved a final determination of prudence on the project until the AMI installation was complete, and all customer benefits could be presented for evaluation.⁴ The Commission authorized the recovery of the test year AMI costs,

¹ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529 & UG-190530, Order 08, 43, ¶ 135 (July 8, 2020) (PSE 2020 GRC Order).

² PSE 2020 GRC Order at 45, ¶ 140–142.

³ PSE 2020 GRC Order at 47, ¶ 148.

⁴ PSE 2020 GRC Order at 49, ¶ 156.

1 deferral, and pro forma adjustments through December 31, 2019, but required PSE to
2 continue to defer recovery of the return *on* each portion of the investment.⁵

3
4 **Q. Did the Commission provide guidance to PSE on how to achieve full recovery**
5 **on the AMI investment?**

6 A. Yes. In PSE’s last GRC, the Commission clearly stated that the prudence of the AMI
7 investment “rests on PSE’s ability to live up to its promises of multiple customer
8 benefits.”⁶ During the hearing and in the order, the Commission referred to a Utility
9 Dive article, describing the American Council for an Energy-Efficient Economy
10 (ACEEE) report, *Leveraging Advanced Metering Infrastructure to Save Energy*,
11 which warned that “[m]any utilities are underexploiting AMI capabilities and
12 attendant benefits, thus missing a key tool to deliver value to their customers and
13 systems.”⁷ As part of its order, the Commission provided several expectations
14 regarding PSE’s future proposal to recover the return on its AMI investment.
15 Specifically, the Commission stated that PSE should demonstrate:

- 16 1. Completion of the AMI project;
- 17 2. Plans for the Company and customers to receive maximum value
18 from AMI implementation;

⁵ PSE 2020 GRC Order at 200, ¶ 741.

⁶ PSE 2020 GRC Order at 49, ¶ 156.

⁷ PSE 2020 GRC Order at 50, ¶ 157 (quoting *Most utilities aren’t getting full value from smart meters, report warns*, Utility Dive, Robert Walton (Jan. 13, 2020), available at <https://www.utilitydive.com/news/most-utilitiesarent-getting-full-value-from-smart-meters-report-warns/570249/>).

- 1 3. Review of the ACEEE report referenced in the Utility Dive article
2 “*Most utilities aren’t getting full value from smart meters, report*
3 *warns*”;
- 4 4. Analysis of applicability of six use cases (time of use rates, real-time
5 energy use feedback for customers, behavior-based programs, data
6 disaggregation, grid-interactive efficient buildings, and CVR or
7 voltage/VAR optimization), as well as any other use cases identified by
8 the Company; and
- 9 5. Development of additional information or metrics demonstrating AMI
10 benefits to customers.⁸

11

12 **Q. Has the Commission provided any additional guidance relevant to the recovery**
13 **of AMI since the 2020 Order?**

14 A. Yes. In Avista’s last GRC, the Commission allowed both the recovery of AMI
15 investment and the return on AMI investment.⁹ While the Commission authorized
16 recovery, it noted that it was not completely satisfied with Avista’s proposal and
17 imposed additional requirements.¹⁰ To summarize, the Commission required Avista
18 to:

- 19 1. Develop and report further analyses of the six use cases for AMI;
20 2. Craft and report plans for *achieving benefits* through application of
21 each of the use cases of AMI; and

⁸ PSE 2020 GRC Order at 49–50, ¶¶ 156–157.

⁹ *Wash. Utils. & Transp. Comm’n v. Avista Corp*, Dockets UE-200900 & UG-200901, Order 08, 126, ¶ 376 (September 27, 2021)(Avista 2021 GRC Order).

¹⁰ Avista 2021 GRC Order at 80-81, ¶ 228 (emphasis added).

1 3. Develop and propose AMI performance-based regulation metrics and
2 measurements that the Commission may apply. Specifically, identify
3 such metrics and measurements relevant for each of the use cases of
4 AMI.¹¹

5 The Commission also encouraged Avista to engage with stakeholders, for support
6 and feedback, when developing proposals for AMI performance-based metrics and
7 measurements.¹²

8

9 **Q. Is there anything else that has occurred since the 2019 GRC that PSE should**
10 **have considered when creating an AMI implementation plan that maximizes**
11 **customer benefits?**

12 A. Yes. As detailed in the testimony of Staff witness Deborah Reynolds, significant
13 legislation has changed the framework for electric and gas utility regulation in recent
14 years. As Reynolds explains, equity is a factor the Commission may consider when
15 determining if an investment or action is in the public interest.¹³ In addition, PSE
16 describes AMI as necessary for PSE to comply with CETA, specifically because it
17 provides granular data for demand side management, renewable energy resources,
18 and customer programs.¹⁴ In Staff’s view, a forward looking plan developed by PSE
19 to implement programs for achieving AMI benefits would be incomplete without
20 consideration of equity.

¹¹ Avista 2021 GRC Order at 127, ¶ 383.

¹² Avista 2021 GRC Order at 81, n.284.

¹³ Reynolds, Exh. DJR-1T at 8-13.

¹⁴ Koch, Exh. CAK-7 at 37:3-6. *See also*, Sergici, Exh. SIS-3 at 12 (“AMI is also part of PSE’s broader, company-wide initiative to modernize the grid and meet the objectives of the Washington Clean Energy Transformation Act. (‘CETA’).”).

1 **B. Criteria for Approval to Receive a Return on AMI Investment**

2

3 **Q. What criteria did Staff consider when evaluating PSE’s request for a return on**
4 **AMI investment?**

5 A. In addition to the Commission’s prudence standard, Staff reviewed the
6 Commission’s guidance from both PSE’s last GRC and Avista’s last GRC, as well as
7 changes to the regulatory framework as described above.¹⁵ With respect to criteria
8 specific to AMI, Staff expected PSE to demonstrate the following through its
9 testimony and exhibits in this GRC:

- 10 1. Completion of the AMI project;
- 11 2. Reports showing how benefits were achieved so far; and plans for the
12 Company and customers to receive maximum value from AMI
13 implementation;
- 14 3. PSE review of the ACEEE report referenced in the Utility Dive article
15 *“Most utilities aren’t getting full value from smart meters, report*
16 *warns”*;
- 17 4. Analysis of the applicability of six use cases (time of use rates, real-
18 time energy use feedback for customers, behavior-based programs,
19 data disaggregation, grid-interactive efficient buildings, and CVR or
20 voltage/VAR optimization), as well as any other use cases identified by
21 the Company;

¹⁵ Ball, Exh. JLB-1T at 18:21-19:10.

- 1 5. Development of additional information or metrics demonstrating AMI
2 benefits to customers; and
- 3 6. Consideration of applicable changes in legislation and rule,
4 particularly around equity.

5

6 **Q. Did the Company meet all these criteria?**

7 A. No. However, the Company met some of the criteria. The AMI project, while not yet
8 complete, will be completed during the multiyear rate plan. It is also clear from the
9 Company’s testimony that PSE thoroughly reviewed the ACEEE report and
10 thoroughly examined the applicability of the six use cases.¹⁶

11

12 **Q. What criteria did PSE fail to meet?**

13 A. The Company failed to appropriately demonstrate (1) how it planned to achieve or
14 maximize customer benefits, and (2) developed information and metrics
15 demonstrating benefits to customers, and (3) sufficiently considered equity.

16

17 **Q. Please explain the analysis framework used in PSE’s “Maximizing Customer**
18 **Benefits through PSE’s Advanced Metering Infrastructure” report (AMI**
19 **Report) presented as Sergici, Exh. SIS-3?**

20 A. The AMI Report is based off a cost-benefit framework from a utility cost
21 perspective.¹⁷ The cost-benefit ratio of 2.2 calculated for the Tier 1 and Tier 2 use

¹⁶ Sergici, Exh. SIS-1T at 5:23 - 6:20; Sergici, Exh. SIS-3 at 21; Koch, Exh. CAK-7 at 14:19 - 17:16.

¹⁷ Snyder, Exh. JES-4 at 1.

1 cases detailed in the AMI Benefit Implementation Plan¹⁸ is not exactly a traditional
2 cost-test, rather it is a modified utility cost test (UCT) that incorporates the societal
3 costs of avoided emissions.¹⁹ When quantifying benefits, PSE focused on five major
4 benefit categories: (1) Avoided Generation Capacity Costs; (2) Avoided T&D
5 Capacity Costs; (3) Avoided T&D Losses; (4) Avoided Energy Costs; and (5)
6 Avoided Emissions.²⁰ The first four categories are clearly utility system benefits²¹
7 while the fifth category, avoided emissions, is a societal benefit.²²

8

9 **Q. Please explain how the Company failed to maximize customer benefits.**

10 A. The Company failed to distinguish customer benefits from system benefits,
11 essentially applying a UCT²³ to the analysis used to review the AMI Benefit
12 Implementation Plan.²⁴ The Commission’s standard practice for demand-side
13 management resources has long been to rely primarily on the Total Resource Cost
14 Test (TRC) that accounts for costs and benefits to both ratepayers and the utility.²⁵

¹⁸ Koch, Exh. CAK-7, Appendix C.

¹⁹ Sergici, Exh. SIS-1T at 20:11.

²⁰ Sergici, Exh. SIS-1T at 14:3, fig. 2; Sergici, Exh. SIS-3 at 18-19.

²¹ National Energy Screening Project, *National Standard Practice Manual for Benefit-Cost Analysis of Distributed Energy Resources*, 3-6 (August 2020) (NSPM for DERs), available at <https://www.nationalenergyscreeningproject.org/national-standard-practice-manual/>. (“Utility system benefits typically include all the utility system costs that would be avoided or deferred by implementing DER.”).

²² NSPM for DERs at ix, Table S-5 (environmental costs and benefits, such as those caused by greenhouse gas emissions are societal impacts).

²³ NSPM for DERs at 3-1 (“Utility Cost Test (UCT), also known as the Program Administrator Cost Test (PACT), which includes the benefits and costs experienced by the utility system.”).

²⁴ Snyder, Exh. JES-2 at 1 (explaining that the benefit-cost analysis for PSE’s AMI investments in Sergici, Exh. SIS-1T and Sergici, Exh. SIS-3 “reflect benefits accrued to the utility system as a whole”). See also, Koch, Exh. CAK-7, Appendix C.

²⁵ NSPM for DERs at 3-1 (“Total Resource Cost (TRC) Test, which includes the benefits and costs experienced by the utility system, plus benefits and costs to host customers.”); *In the Matter of the Commission Investigation into Natural Gas Conservation Programs*, Docket UG-121207, Policy Statement on the Evaluation of the Cost-Effectiveness of Natural Gas Conservation Programs, 5–6, ¶¶ 10–11, 13 ¶ 35 (October 9, 2013).

1 While AMI is not itself a demand-side resource, many of the use cases, including all
2 of the Tier 1 use cases, are energy efficiency, DR, and other distributed energy
3 resources.²⁶ When the Commission described its expectation that “both the Company
4 *and its customers* receive maximum value from its AMI system,” it indicated that the
5 plan should not focus solely on utility benefits.²⁷ Therefore, Staff contends that
6 PSE’s AMI Report and AMI Benefit Implementation Plan do not adequately plan for
7 achieving benefits through application of each of the use cases of AMI, where
8 customers receive the maximum value from AMI implementation.

9
10 **Q. Has PSE demonstrated that it maximized customer benefits with respect to**
11 **AMI?**

12 A. No. PSE has simply not demonstrated that it has maximized customer benefits
13 because its cost-benefit analysis did not directly consider cost-benefit to customers,
14 as part of its AMI Report and AMI Benefit Implementation Plan.

15
16 **Q. If the system benefits cause rates to be lower, is that a customer benefit?**

17 A. Not necessarily, especially in the context of benefit-cost analysis for distributed
18 energy resources. Broadly speaking, customers benefit from an affordable and
19 efficient utility system. However, Staff does not believe that these utility system
20 impacts are sufficient in an analysis of customer benefits. A comparison of cost-
21 benefit tests, as shown in Table 1 below, shows that a TRC accounts for customer

²⁶ For example, time varying rates, behavior-based programs, load flexibility programs, conservation voltage reduction, lower metering cost for customers with distributed generation. Koch, Exh. CAK-7, Appendix C at 2.

²⁷ PSE 2020 GRC Order at 50, ¶ 157 (emphasis added).

1 costs (which impacts the maximization of customer benefits) in a way that a UCT
 2 does not. A major concern with the use of the UCT is that a utility may implement
 3 programs that are not in a participating ratepayer’s economic interest because the
 4 UCT considers only the costs and benefits to the utility system, ignoring the impact
 5 on host customers.

6 **Table 1: Comparison of cost-benefit tests²⁸**

Test	Perspective	Key Question Answered	Categories of Benefits and Costs Included
Utility Cost Test (UCT)	The utility system	Will utility system costs be reduced?	Utility system impacts
Total Resource Cost Test (TRC)	The utility system plus host customers	Will utility system costs and host customers’ costs collectively be reduced?	Utility system impacts, and host customer impacts
Societal Cost Test (SCT)	Society as a whole	Will total costs to society be reduced?	Utility system impacts, host customer impacts, and societal impacts
Jurisdiction-Specific Test (JST)	Regulators	Will the cost of meeting utility system needs, while achieving applicable policy goals, be reduced?	Utility system impacts, plus impacts associated with achieving applicable policy goals

7
8
9 **Q. What does Staff recommend PSE use as a cost-benefit test?**

10 A. Staff believes that an analysis of customer and Company benefits, as requested by
 11 the Commission in PSE’s last GRC, should be based on a TRC. Specifically, Staff

²⁸ NSPM for DERs at 3-14, Table 3-5.

1 recommends PSE use a modified TRC that incorporates the social cost of carbon to
2 demonstrate the maximization of customer and Company benefits.

3

4 **Q. Are some customer benefits considered in the AMI Benefits Implementation**
5 **Plan?**

6 A. Yes. PSE provides the AMI Report, which mentions unquantified benefits such as
7 customer satisfaction, increased reliability and resilience, and local job benefits.²⁹

8 These benefits are acknowledged in passing, but Staff has not been able to identify
9 any attempt by the Company to plan for or maximize these benefits. PSE plans to

10 evaluate customer costs and benefits *after* PSE obtains Commission approval to

11 proceed with these programs.³⁰ The Company must show that the AMI system will

12 be operated and utilized in such a way as to provide the maximum value to

13 customers. PSE states that “specific distributional impacts and benefit accruals of the

14 programs that are best determined after the program designs are finalized.”³¹ While

15 the distribution of benefits can only be accurately known after the fact, PSE needs to

16 incorporate a forecast of customer benefits into program planning. Relying on large,

17 estimated benefits of avoided system costs to assume that benefits accrue to

18 customers is insufficient given the Commission’s prior emphasis on the importance

19 of PSE presenting all customer benefits for evaluation.³²

20

²⁹ Sergici, Exh. SIS-3 at 25.

³⁰ Snyder, Exh. JES-2 at 2; Snyder, Exh. JES-4 at 1 (“If PSE obtains approval from the Commission to proceed with these customer-facing programs, PSE will factor in participant costs in its program design and deployment (i.e., deciding on the level of incentives) along with other program implementation and administrative costs.”).

³¹ Snyder, Exh. JES-2 at 2.

³² PSE 2020 GRC Order at 50, ¶ 155.

1 **Q. To what extent did PSE consider equity when developing the AMI Benefit**
2 **Implementation Plan?**

3 A. Some of the individual use cases, specifically those included in the Company's Clean
4 Energy Implementation Plan (CEIP), have been or are being developed with some
5 consideration for highly impacted communities and vulnerable populations.³³
6 However, there was no effort to plan for equitable outcomes at the portfolio level of
7 AMI use cases. As detailed in the testimony of Staff Witness Molly Brewer (MAB-
8 1T), the delivery system planning process used to consider grid modernization
9 project does not evaluate portfolios with an equity lens.³⁴
10

11 **Q. What is Staff's recommendation regarding AMI investment in this case?**

12 A. Staff recommends that the Commission withhold a final prudence determination,
13 authorize a return of the AMI investment, but continue to defer a return on the
14 investment until such time as the Company files an updated AMI implementation
15 plan, developed with adequate input from interested and affected people and
16 organizations, that maximizes both customer and Company benefits, develops
17 additional information and metrics demonstrating AMI benefits to customers, and
18 appropriately addresses equity.
19

20 **Q. How does your recommendation impact PSE's electric and natural gas revenue**
21 **requirements?**

³³ Snyder, Exh. JES-3 at 2.

³⁴ Brewer, Exh. MAB-1T at 15:1-5.

1 A. Staff's recommendation to allow PSE to continue to defer a return on its AMI
2 investments requires removing the return on rate base from PSE's electric and gas
3 revenue requirements. Staff witness McGuire discusses how AMI rate base was
4 removed from Staff's revenue requirement calculations.³⁵

5 Relative to PSE's as-filed electric Adjustment 6.24, Staff's Adjustment 6.24
6 – which includes the impact of removing the electric return deferral as well as the
7 return on electric AMI rate base going forward – reduces electric revenue
8 requirement by \$22,839,972 in 2023, \$31,385,549 in 2024, and 30,399,006 in
9 2025.³⁶ Relative to PSE's as-filed Adjustment 11.24, Staff's Adjustment 11.24
10 reduces natural gas revenue requirement by \$10,308,337 in 2023, \$15,532,836 in
11 2024, and \$14,657,337 in 2025.³⁷

12
13 **IV. PERFORMANCE BASED REGULATION RELATED TO AMI**

14
15 **A. AMI Performance Metrics**

16
17 **Q. Did PSE propose performance metrics directly related to AMI?**

18 A. Yes, PSE proposed four metrics to measure performance of AMI:

- 19 1. AMI bill read success rate - electric;
20 2. AMI bill read success rate - gas;
21 3. Remote switch success rate; and

³⁵ McGuire, Exh. CRM-1T at 26:17-30:12.

³⁶ McGuire, Exh. CRM-8 at 4:24.

³⁷ McGuire, Exh. CRM-8 at 6:24.

1 4. Reduced energy consumption from voltage regulation.³⁸

2

3 **Q. What is your opinion of the performance metrics proposed by PSE?**

4 A. Staff believes that each of these metrics are useful but recommends that PSE track
5 the metrics with greater detail. That is, each metric should also include specific
6 tracking related to both highly-impacted communities and vulnerable populations in
7 order to better identify the equity impacts and implications of PSE's AMI
8 performance.

9

10 **B. Demand Side Management Metrics**

11

12 **Q. Did PSE propose performance metrics related to demand side management?**

13 A. Yes. PSE proposed five metrics to measure performance of demand side
14 management:

- 15 1. Peak load management savings;
- 16 2. Peak load management attributable to residential customers;
- 17 3. Annual electric energy efficiency savings;
- 18 4. Annual gas energy efficiency savings; and
- 19 5. Number of customers participating in gas and electric energy
20 efficiency programs who are from highly impacted communities and
21 vulnerable populations.³⁹

22

³⁸ Koch, Exh. CAK-1Tr at 54:17-19.

³⁹ Lowry, Exh. MNL-4 at 5-9.

1 **Q. What is your opinion of the performance metrics proposed by PSE?**

2 A. Staff does not oppose including the proposed metrics but, as with the AMI metrics
3 described above, recommends that metrics 2 through 4 should also include specific
4 tracking related to both highly-impacted communities and vulnerable populations.
5

6 **Q. Does Staff propose additional performance metrics?**

7 A. Yes. Staff proposes several additional performance metrics that should help provide
8 additional detail regarding PSE's performance with demand side management. For
9 DR, Staff recommends reporting not only the capacity available, but also the amount
10 called on each year. This includes the amount of DR that shapes customer load
11 profiles through price response, time varying rates, or behavior campaigns; the
12 amount of DR that shifts energy consumption from times of high demand to times
13 when there is a surplus of renewable or non-emitting generation; and the amount of
14 DR that sheds load that can be curtailed to provide peak capacity and support the
15 system in contingency events. Staff recommends PSE propose an evaluation method
16 to measure the shaping and shifting of energy through DR and solicit feedback from
17 the Conservation Resources Advisory Group. Staff also recommends that PSE
18 consult with each of their various advisory groups when developing customer-facing
19 programs to help determine additional metrics that will be helpful to illustrate PSE
20 performance in demand-side management and develop baselines for potential future
21 performance metrics or performance incentive mechanisms (PIMs).
22

1 **Q. Has PSE proposed a PIM for demand side management?**

2 A. Yes. PSE has proposed a DR PIM, also referred to as a peak load management
3 savings PIM, related to demand side management.⁴⁰

4

5 **Q. Describe how the DR PIM would work.**

6 A. Simply put, each year the Company would receive a reward of 15 percent the cost of
7 DR related expenses when it acquires 90 percent of its DR target and increases to 25
8 percent of DR related expenses if it exceeds 110 percent of its target. There is no
9 penalty incurred at any achievement level.⁴¹

10

11 **Q. Please describe the DR target proposed by PSE.**

12 A. The DR target proposed in the multiyear rate plan is 23.7 MW for the 2022-2025
13 implementation period, exclusive of planned pricing pilots, and is based off PSE's
14 proposed DR target in its PSE CEIP.⁴² The proposed annual incremental targets are 5
15 MW in 2023, 6 MW in 2024, and 12 MW in 2025.⁴³

16

17 **Q. Does Staff support a DR PIM?**

18 A. Yes. A DR PIM will provide an incentive for PSE to overcome hurdles to
19 implementing DR. PSE has not yet been successful in developing DR programs.
20 With a lack of DR programs in the past, this is a new resource for PSE that requires
21 the Company to forgo supply-side resources and the opportunity to earn a return on

⁴⁰ Lowry, Exh. MNL-3 at 53.

⁴¹ Lowry, Exh. MNL-5 at 2.

⁴² Jacobs, Exh. JJJ-3 at 39.

⁴³ Lowry, Exh. MNL-1T at 29:4-9.

1 said investment. PSE has failed to incorporate DR into its resource portfolio despite
2 issuing approximately 15+ conservation and energy efficiency and targeted DR
3 requests for proposals, excluding evaluation and marketing, in the years 2011
4 through 2020, indicating barriers to implementation.⁴⁴

5
6 **Q. Does Staff support PSE’s proposed DR PIM?**

7 A. Not as proposed. PSE’s proposed reward and threshold to receive the reward for the
8 DR PIM are overly generous to the Company. The proposed reward begins at 15
9 percent of the program costs, a percent that is roughly twice PSE’s weighted average
10 cost of capital (WACC).⁴⁵ The Company justifies this reward amount by claiming
11 that DR expenses will likely be less than the cost of avoided supply-side resources;
12 PSE should be financially better off than if it relied on supply-side resources; and
13 achievement levels are less certain than for other utilities with historical experience
14 with DR.⁴⁶ Staff is not convinced by these arguments. PSE is required by law to
15 acquire all cost-effective DR and the Commission has authority to penalize PSE for
16 not achieving an approved DR target.⁴⁷ PSE’s proposed DR PIM sets up a potentially
17 absurd situation where the Commission may consider a penalty for not meeting a
18 target while also providing an incentive reward for achieving 90 percent of its DR
19 target.

20

⁴⁴ *In the matter of the Petition of Puget Sound Energy for an Order Approving Proposed Request for Proposals*, Dockets UE-200413 & UE-200414, Open Meeting Memo for the October 15, 2020, Open Meeting, 3, n.5 (October 15, 2020).

⁴⁵ Lowry, Exh. MNL-1T at 30:18; Lowry, Exh. MNL-3 at 60.

⁴⁶ Lowry, Exh. MNL-1T at 30-31; 20-5; Lowry, Exh. MNL-3 at 60.

⁴⁷ RCW 19.405.050(3); WAC 480-100-665(3).

1 **Q. What does Staff recommend for a possible DR PIM?**

2 A. Staff recommends that the DR PIM initial reward threshold activate at 105 percent of
3 the DR target instead of 90 percent and the second reward threshold activate if the
4 Company exceeds 115 percent of the DR target instead of 110 percent, as detailed in
5 Table 2 below. Additionally, the initial reward should be a percent of DR program
6 costs equal to PSE’s WACC, as determined by the Commission in this case, and
7 increase to 15 percent of DR program costs if the Company exceeds 115 percent of
8 the DR target. Finally, Staff recommends these calculations be based on the DR
9 target that is approved by the Commission in the Company’s CEIP. DR targets for
10 2024 and 2025 should be based off an approved CEIP update, if different from those
11 approved in the CEIP.

12 **Table 2: Staff recommended DR PIM structure**

13

<u>Year</u>	<u>Achievement as % of DR Target</u>	<u>Reward as % of Program Costs</u>
2023	< 105%	0%
	105%-115%	WACC %
	>115%	15%
2024	< 105%	0%
	105%-115%	WACC %
	>115%	15%
2025	< 105%	0%
	105%-115%	WACC %
	>115%	15%

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

2 **A. Yes.**