

**EXH. LCM-1T
DOCKETS UE-220066/UG-220067
2022 PSE GENERAL RATE CASE
WITNESS: LAUREN C. MCCLOY**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,
Complainant,**

v.

**PUGET SOUND ENERGY,
Respondent.**

**Docket UE-220066
Docket UG-220067**

PREFILED RESPONSE TESTIMONY (NONCONFIDENTIAL) OF

LAUREN C. MCCLOY

**ON BEHALF OF NW ENERGY COALITION, FRONT AND CENTERED, AND
SIERRA CLUB**

JULY 28, 2022

NW ENERGY COALITION, FRONT AND CENTERED, AND SIERRA CLUB

**PREFILED RESPONSE TESTIMONY (NONCONFIDENTIAL) OF
LAUREN C. MCCLOY**

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NW ENERGY COALITION, FRONT AND CENTERED, AND SIERRA CLUB

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LIST OF EXHIBITS

Exh. LCM-2	Professional Qualifications for Lauren C. McCloy
Exh. LCM-3	PSE Response to NWEC DR No. 001
Exh. LCM-4	PSE Response to NWEC DR No. 064
Exh. LCM-5	Front and Centered Comments on PSE 2021 Final CEIP
Exh. LCM-6	Seattle Racial Equity Toolkit
Exh. LCM-7	PSE response to NWEC DR No. 020
Exh. LCM-8	PSE response to NWEC DR No. 021
Exh. LCM-9	Talen Force Majeure letter

INTRODUCTION

Q. Please state your name, title, and business address.

A. My name is Lauren C. McCloy, and I am the Policy Director for the NW Energy Coalition (“NWEC”). My business address is 811 1st Ave., Suite 305, Seattle, WA 98104.

Q. Please describe your background and experience.

A. As Policy Director for NW Energy Coalition, I support and guide the Coalition’s policy work in Washington, as well as Oregon, Idaho, and Montana, and also our work on regional and federal issues, including regional planning, markets, and federal infrastructure funding. Previously, I worked as Senior Policy Advisor to Governor Jay Inslee, where I led and managed a broad range of issues in support of the Governor’s energy priorities, including the Clean Energy Transformation Act, Climate Commitment Act, Environmental Justice issues, and elements of the state’s response to the COVID-19 pandemic. Prior to serving in that role, I was the Legislative Director for the Washington Utilities and Transportation Commission (“UTC” or “Commission”), where I served as the Commission’s liaison to the state Legislature and the Governor’s office, coordinated the UTC’s legislative activities, and advised Commissioners on energy policy and legislative issues. Before joining the UTC’s policy staff, I worked as a Compliance Investigator in the UTC’s Consumer Protection Division. My background and first-hand experience are the basis for my expertise and qualifications to testify as an expert on the issues raised in my testimony.

I completed Utility Regulation 101 training with the National Regulatory Research Institute in 2015 and Rate Spread and Rate Design training in 2016. I have a

1 B.A. from the University of North Carolina at Chapel Hill and an M.S. in International
2 Development from Tulane University Law School. My CV is included as Exh. LCM-2.

3 **Q. Please describe NW Energy Coalition's interest in this case.**

4 **A.** NWEC is a non-profit organization under section 501(c)(3) of the Internal Revenue
5 Code. NWEC's primary purpose is to promote an energy future that is clean, reliable,
6 affordable, and equitable. NWEC provides technical and policy leadership on energy
7 issues in the Northwest, and seeks to promote the development of renewable energy,
8 energy conservation, and affordable energy services. Due to its historic and ongoing work
9 with utility companies and others to achieve the goals, NWEC possesses a substantial
10 interest in the outcome of this proceeding.

11 NWEC has a special interest in this proceeding for several reasons:

- 12 1. To the extent the proposed rate change and multi-year rate plan impacts Puget
13 Sound Energy's ("PSE" or the "Company") infrastructure investments, NWEC
14 has an interest in ensuring that those investments comply with Washington's
15 climate and clean energy policies, including but not limited to the Clean Energy
16 Transformation Act ("CETA") and the Climate Commitment Act ("CCA").
- 17 2. NWEC was directly involved in the negotiation of SB 5295 in the Legislature in
18 2021, and has an interest in ensuring that any approved multi-year rate plan is
19 implemented consistent with the public interest, coupled with appropriate
20 performance measures, and in conjunction with low-income energy assistance as
21 provided in RCW 80.28.068.
- 22 3. NWEC has an interest in facilitating PSE's equitable transition to clean energy –
23 including ensuring an equitable distribution of benefits and burdens from its

1 investments, with a specific focus on affordability for low- and moderate-income
2 customers, vulnerable populations, and highly impacted communities.

- 3 4. NWEC continues to have an interest in seeking a pathway to closure of the
4 Colstrip coal-fired power plant in Montana, including ensuring that PSE
5 customers are not saddled with uneconomic investments that extend the life of the
6 plant.
7 5. NWEC has an interest in ensuring that PSE is enabling customer-side resources,
8 including making prudent investments on its distribution system, procuring cost-
9 effective demand response, energy efficiency, and distributed energy resources.

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

11 A. First, I provide an overview of the testimony of NW Energy Coalition, the Sierra Club,
12 and Front and Centered, organizations jointly intervened in this proceeding as the “Joint
13 Environmental Advocates.”

14 Second, I address issues related to CETA, and describe how (1) PSE’s public
15 statements overstate CETA’s costs in this case, (2) PSE erroneously attributes costs to
16 CETA in its proposed revenue requirement and testimony in this case, (3) PSE’s multi-
17 year rate plan proposal fails to reflect Washington’s climate and clean energy policies,
18 and (4) PSE’s multi-year rate plan proposal fails to meet CETA’s equity mandate.

19 Third, I explain the steps PSE should take now to mitigate the costs and risks to
20 customers associated with its implementation of the Climate Commitment Act for electric
21 and gas service, and to facilitate a longer-term, managed transition of its gas system.

1 Fourth, I recommend that the Commission provide guidance to PSE for
2 conducting a robust distribution planning process, as a condition of approving some of
3 PSE's proposed grid modernization and DER enablement costs.

4 Fifth, my testimony will address the need to ensure customer benefits and
5 equitable access to PSE's transportation electrification investments.

6 Sixth, my testimony will address PSE's proposal related to decoupling and why
7 we support its continuance.

8 Finally, my testimony will address why the Commission should disallow
9 investments to extend the life of the Colstrip coal-fired power plant.

OVERVIEW OF THE JOINT ENVIRONMENTAL ADVOCATES TESTIMONY

10 **Q. Please briefly describe the witnesses sponsored by the Joint Environmental
11 Advocates and the scope of their testimony.**

12 **A.** Ronald J. Binz, Exh. RJB-1T, discusses the need for and purpose of performance-based
13 regulation (PBR) and critiques PSE's proposed multi-year rate plan. Mr. Binz responds to
14 the testimony of PSE witness Dr. Mark Lowry, and advocates for a revenue cap
15 approach, with a revenue adjustment mechanism based on an external index, and
16 including performance incentives and a revenue sharing mechanism executed at the end
17 of the multi-year rate plan.

18 Ed Burgess, Exh. EB-1T, addresses PSE's plan for continued growth of its gas
19 system and how this relates to Washington's climate policies. Mr. Burgess critiques
20 PSE's interpretation of the gas decarbonization study performed by E3, and recommends
21 elimination of PSE's line extension allowance policy. Mr. Burgess also addresses PSE's
22 planned investments in RNG and hydrogen, and proposes a performance metric and

1 incentive mechanisms to motivate PSE to pursue electrification as part of its gas
2 decarbonization efforts.

3 Josh B. Keeling, Exh. JBK-1T, addresses PSE's proposed grid modernization and
4 Distributed Energy Resources (DER) enablement investments, Energy Efficiency,
5 Demand Response, and DER program concepts in PSE's Clean Energy Implementation
6 Plan, and Time-Varying Rates (TVR) pilot proposal. Mr. Keeling compares PSE's
7 proposals to industry best practices, and recommends a more robust distribution system
8 planning effort, a higher demand response target, and a broader roll-out of TVR to
9 support the prudence of PSE's proposed capital additions.

10 Amy E. Wheeless, Exh. AEW-1T, responds to PSE's proposals for metrics and
11 performance incentive mechanisms ("PIMs") as part of its proposed multi-year rate plan.
12 Ms. Wheeless critiques PSE's proposed PIMs related to demand response and
13 transportation electrification and also proposes performance metrics the Company may
14 track as a part of this general rate case.

15 **Clean Energy Transformation Act (CETA) issues**

16 **Q. What targets or goals does CETA require PSE to achieve within the next thirty
17 years?**

18 **A.** CETA establishes three clean energy standards with which PSE must demonstrate
19 compliance:

- 20 1. PSE must remove coal power from rates by the end of 2025.
- 21 2. PSE's electricity must be "greenhouse gas neutral" by 2030. As described in
22 RCW 19.405.040, eighty percent of this standard must be achieved through the

1 use of non-emitting electric generation and electricity from renewable resources,
2 and twenty percent may be met through alternative compliance options.

- 3 3. PSE's electricity must be 100 percent clean by 2045. As described in RCW
4 19.405.050, this standard must be met using a combination of non-emitting
5 electric generation and electricity from renewable resources.

6 CETA also establishes resource prioritization that utilities must follow in planning
7 and procurement decisions. First, utilities are required to pursue all cost-effective, reliable
8 and feasible conservation and efficiency resources and demand response. If new
9 investments are necessary, utilities must consider acquiring existing renewable resources,
10 and then new renewable resources and energy storage, before considering other
11 resources. RCW 19.405.040(6)(a)(ii) and (iii).

12 CETA also prescribes a new public interest standard, which requires utilities to
13 “...ensure that all customers are benefiting from the transition to clean energy: Through
14 the equitable distribution of energy and nonenergy benefits and reduction of burdens to
15 vulnerable populations and highly impacted communities; long-term and short-term
16 public health and environmental benefits and reduction of costs and risks; and energy
17 security and resiliency.” (RCW 19.405.010(6).) This new standard is also expressed as a
18 mandate for utilities in RCW 19.405.040(8):

19 *“In complying with this section, an electric utility must ...ensure that all
20 customers are benefiting from the transition to clean energy: Through the
21 equitable distribution of energy and nonenergy benefits and reduction of burdens
22 to vulnerable populations and highly impacted communities; long-term and short-*

1 *term public health and environmental benefits and reduction of costs and risks;*
2 *and energy security and resiliency.”*

3 **Q. CETA requires a utility to prepare a Clean Energy Implementation Plan (“CEIP”).**

4 **Could you please explain in general terms the purpose of the CEIP?**

5 **A.** The overarching purpose of the CEIP is to provide certainty, accountability, and
6 transparency in the implementation of CETA. Unlike the Integrated Resource Plan
7 (“IRP”), the CEIP is not merely the “utility’s plan.” Instead, the CEIP should be a
8 collaborative work product, supported by the participation of customers, and approved by
9 the Commission. As PSE maps a path to achieving an equitable transition to a 100-
10 percent clean electricity grid, the CEIP will be an important document for communicating
11 to customers how PSE plans to supply them with an increasingly clean mix of resources,
12 demonstrating progress toward 100-percent clean electricity, and ensuring that all
13 customers equitably benefit from the transition.

14 **Q. Has PSE prepared a CEIP pursuant to CETA?**

15 **A.** Yes. PSE filed a final CEIP with the Commission in Docket No. UE-210795 on
16 December 17, 2021 and in this docket on January 31, 2022. PSE’s CEIP is supposed to
17 describe the specific actions the company plans to take to achieve its proposed interim
18 targets by the end of 2025 (WAC 480-100-640(5) and (6)).¹ PSE has proposed interim

¹ (5) **Specific actions.** Each CEIP must include the specific actions the utility will take over the implementation period. The specific actions must meet and be consistent with the clean energy transformation standards and be based on the utility's clean energy action plan and interim and specific targets. Each CEIP must present the specific actions in a tabular format that provides the following information for each specific action:

(a) The general location, if applicable, proposed timing, and estimated cost of each specific action or remaining resource need, including whether the resource will be located in highly impacted communities,

1 targets for renewable energy (63%), demand response (23.7 MW) and energy efficiency
2 (1,073,434 MWh for 2022–2025). PSE also proposes an 80-MW DER sub-target, which
3 the company intends to meet with a portfolio of distributed energy resources (DERs),
4 determined through the targeted DER RFP process.

5 Most of the specific actions which PSE must take to meet the targets are yet to be
6 determined, subject to the results of its 2021 All-Source Request for Proposals in Docket
7 UE-210220 and Targeted DER/DR Request for Proposals in Docket UE-210878.

will be governed by, serve, or otherwise benefit highly impacted communities or vulnerable populations in part or in whole;

- (b) Metrics related to resource adequacy including contributions to capacity or energy needs; and
- (c) Customer benefit indicator values, or a designation as nonapplicable, for every customer benefit indicator described in subsection (4)(c) of this section.

(6) **Narrative description of specific actions.** The CEIP must describe how the specific actions:

- (a) Demonstrate progress toward meeting the standards identified in WAC 480-100-610 (2) and (3);
- (b) Demonstrate consistency with the standards identified in WAC 480-100-610(4) including, but not limited to:

- (i) An assessment of current benefits and burdens on customers, by location and population, and the projected impact of specific actions on the distribution of customer benefits and burdens during the implementation period;

- (ii) A description of how the specific actions in the CEIP mitigate risks to highly impacted communities and vulnerable populations and are consistent with the longer-term strategies and actions described in the utilities most recent IRP and CEAP as required by WAC 480-100-620 (11)(g) and (12)(c).

- (c) Are consistent with the proposed interim and specific targets;

- (d) Are consistent with the utility's integrated resource plan;

- (e) Are consistent with the utility's resource adequacy requirements, including a narrative description of how the resources identified in the most recent resource adequacy assessment conducted or adopted by the utility demonstrates that the utility will meet its resource adequacy standard; and

- (f) Demonstrate how the utility is planning to meet the clean energy transformation standards at the lowest reasonable cost including, but not limited to:

- (i) A description of the utility's approach to identifying the lowest reasonable cost portfolio of specific actions that meet the requirements of (a) through (e) of this subsection, including a description of its methodology for weighing considerations in WAC 480-100-610(4);

- (ii) A description of the utility's methodology for selecting the investments and expenses it plans to make over the next four years that are directly related to the utility's compliance with the clean energy transformation standards, consistent with RCW 19.405.050(3)(a), and a demonstration that its planned investments represent a portfolio approach to investment plan optimization; and

- (iii) Supporting documentation justifying each specific action identified in the CEIP.

1 **Q. How are PSE's CEIP and other CETA issues relevant to this general rate case?**

2 A. There are several issues related to the CEIP and CETA that are relevant to this general
3 rate case and that I will address in my testimony: (1) PSE's public statements that
4 mislead the public regarding the cost to comply with CETA, (2) PSE erroneously
5 attributes costs to CETA in its proposed revenue requirement and testimony in this case,
6 (3) PSE's multi-year rate plan proposal fails to achieve the mandates set out in
7 Washington's climate and clean energy policies, and (4) PSE's multi-year rate plan
8 proposal fails to meet CETA's equity mandate.

9 PSE's CEIP raises many other issues that I will not address here. NWEC and
10 Front and Centered have jointly intervened in the CEIP docket (UE-210795), and I will
11 reserve most of my substantive comments on the CEIP for that proceeding.

12 **(1) PSE's public statements that mislead the public regarding the cost to comply with**
13 **CETA**

14 **Q. How do you respond to PSE's public statements about CETA driving costs in this**
15 **case?**

16 A. PSE's public communications about its rate request misrepresent CETA's impact on
17 customer rates during the multi-year rate plan. PSE's General Rate Case FAQ and press
18 release announcing the rate request imply that customer rates are increasing primarily to
19 meet the 2030 and 2045 clean energy targets in CETA. In particular, PSE's General Rate
20 Case FAQ lists CETA as the first factor in the answer to the question, "Why are my rates
21 increasing?"².

² <https://www.pse.com/press-release/details/Puget-Sound-Energy-files-three-year-rate-proposal>

1

Figure 1: PSE General Rate Case FAQ³



General Rate Case

Why are my rates increasing?

The rate increase request enables the next phases of the transition to a clean energy future, including meeting the 2030 and 2045 carbon-reduction targets set by the 2019 Washington Clean Energy Transformation Act (CETA), as well as recovery of approximately \$3.1 billion in reliability and service upgrades made over the past four years that are not currently factored into rates. Additionally, the proposal includes nearly \$10 million per year in expanded assistance for low-income and economically disadvantaged customers.

2

PSE's public communications also imply that the rate increase requested in its proposed three-year rate plan will enable it to meet the 2030 and 2045 CETA standards:

3

Figure 2: PSE press release

Puget Sound Energy files three-year rate proposal

Rate request reflects investments to improve service and reliability, meet state clean energy policy objectives, and assist low-income customers

Bellevue, Washington (2/1/2022) Puget Sound Energy has filed a three-year rate plan request with the Washington Utilities and Transportation Commission (UTC) – a plan that provides safe and reliable energy and accelerates efforts toward meeting ambitious clean energy goals and enhancing climate resiliency.

For residential customers, the proposal would increase rates in the first year by a net of 12.9% for electricity and 11.9% for natural gas, starting in January 2023, with increases of between 1.2 and 2.7% in the second and third years. If the request is approved, a typical residential electric customer would see an average monthly bill increase of \$12 and a typical natural gas customer a monthly increase of \$9 next year.

The proposal enables the next phases of the transition to a clean energy future, including meeting the 2030 and 2045 carbon-reduction targets set by the 2019 Washington Clean Energy Transformation Act (CETA), as well as recovery of approximately \$3.1 billion in reliability and service upgrades made over the past four years that are not currently factored into rates. Additionally, the proposal includes nearly \$10 million per year in expanded assistance for low-income and economically disadvantaged customers.

4

Q. How do these statements misrepresent CETA's impacts on customer rates during the multi-year rate plan?

A. PSE will certainly need to acquire significant clean resources to transition to 100 percent clean electricity, including significant supply-side and demand-side resources. There will be costs associated with these investments, and those costs will ultimately be reflected in

³ <https://www.pse.com/en/pages/rates/news-and-filings>

1 rates to PSE's customers. However, despite PSE's claims, CETA is not a major factor in
2 PSE's electric rate request in this case. The claim that rates are increasing due to the need
3 to enable PSE to meet the 2030 and 2045 CETA clean energy standards is disingenuous,
4 and not supported by PSE's initial testimony. Rather, the bulk of costs in PSE's electric
5 case are due to major projects to support system reliability which are not attributable to
6 CETA, and advanced metering infrastructure.⁴

7 In fact, the costs of most of the resources identified in PSE's CEIP are not
8 included in this case at all. Rather, PSE intends to recover the costs of most of these
9 resources in the 2023 annual power cost update for rates effective January 1, 2024. Any
10 contracts that are executed too late to be included in that filing could be included in a
11 subsequent annual filing, if approved.⁵ PSE is well aware that the bulk of its CETA
12 implementation costs for the first four-year period (as described, conceptually, in its
13 CEIP) are not before the Commission in this proceeding, while the company's public
14 communications suggest that they are.

15 **Q. Why do PSE's public statements about the cost of implementing CETA matter?**

- 16 A. PSE's customers deserve to know the reasons that their rates will go up, if the
17 Commission approves the company's multi-year rate plan. The company's claims that the
18 requested rate increase is a result of Washington's clean energy policies is inaccurate and
19 misleading, and should not go unanswered in the record of this proceeding or in the
20 company's communications with the public about its rate request.

⁴ MAC-1CT.

⁵ Exh. LCM-3.

1 In the days after PSE filed its general rate case, in my capacity as the Policy
2 Director of an organization that advocated for the passage of CETA and actively
3 participated in the UTC's rulemaking process, I received many questions from PSE
4 customers asking why CETA was driving the company's request for a 12.9% electric rate
5 increase. Given that PSE's initial case included testimony from 37 witnesses and more
6 than 1,000 pages of testimony, it took several months to discern that this was not the
7 case.

8 **Q. How do you recommend that PSE remedy its misleading public communications
9 about its rate request in this case?**

10 **A.** I recommend that the company be required to issue a correction of its public statements
11 concerning CETA costs with its final press release announcing the outcome of this
12 proceeding. The statement should clarify for customers that CETA did not drive the
13 company's rate request in this case, and describe when and how the company intends to
14 recover the costs of CETA implementation, including the costs of resources in its CEIP.

15 **(2) PSE erroneously attributes costs to CETA in its proposed revenue requirement in
16 this case.**

17 **Q. What percentage of PSE's rate request is attributable to CETA?**

18 **A.** PSE claims that 10.1 percent of its Year 1 rate request is attributable to CETA, increasing
19 to 11.8 percent in Year 2 and 15.6 percent in Year 3.⁶ However, I estimate that the
20 percentage attributable to CETA is likely less than three percent.

21 **Q. Why do you disagree with PSE's attribution of costs to CETA?**

⁶ Exh. LCM-4.

1 A. PSE has erroneously attributed a significant portion of its grid modernization and
2 “emergent electric” expenditures (74 percent of the overall costs of those programs) to
3 CETA.⁷ While many of these investments have the benefit of enabling customer-sited
4 generation, two-way communication flow, and distributed storage, witness for the Joint
5 Environmental Advocates Josh Keeling explains in his testimony that the bulk of these
6 expenditures are general investment priorities, and PSE has not demonstrated that they
7 are driven by CETA. As Mr. Keeling explains, these are investments that PSE has
8 decided make sense for the business and its customers, which also happen to support
9 concepts identified in their CEIP. Mr. Keeling further raises concerns about PSE’s
10 conclusion that any investment that relates to a CEIP requirement is in fact caused by
11 CETA, given that CETA covers a broad swath of the utility’s business. It would not be
12 surprising to see a utility like PSE undertake many if not all of these investments (in
13 some form or another) over the coming years, absent CETA.

14 Q. **How did you estimate the portion of PSE’s rate request attributable to CETA?**

15 A. Table 1 below provides an estimate of the percentage of PSE’s revenue requirement
16 request that may be attributable to CETA, when removing the attribution of capital costs
17 for Hosting Capacity Analysis (\$9.62m), Data Lake and Analytics (\$3.65m attributed to
18 CETA); Substation SCADA – Accelerated (\$41.36m attributed to CETA); and Circuit
19 Enablement-DER and Microgrid (\$57.5m attributed to CETA):

⁷ Exh. LCM-4.

1 *Table 1: Estimate of Percentage of PSE's Revenue Requirement Request for CETA*

	2023-2025
CEIP Revenue Requirement Request	\$ 138,557,238
Overall Electric Revenue Requirement Request	\$ 1,089,614,837
Revised CEIP Revenue Requirement Request (Estimate)	\$ 26,427,238
Revised % of Revenue Requirement Request (Estimate)	2.4%

2 Note that this is a simplified calculation for illustrative purposes, and does not address
3 NWEC's issues with respect to PSE's CETA incremental cost calculation, which will be
4 addressed in Docket No. UE-210795.

6 **Q. Is NWEC challenging the reasonableness of these investments?**

7 **A.** As explained in Mr. Keeling's testimony, NWEC believes the cost estimates for grid
8 modernization investments appear reasonable. However, PSE has not justified the need
9 for such a large overall capital expense for grid modernization and DER enablement, in
10 light of its lack of a robust distribution system planning effort, its lackluster demand
11 response target, and the absence of a longer-term programmatic strategy for supporting
12 DR and DERs. In particular, Mr. Keeling recommends that the capital expenditures for
13 “Circuit Enablement – DER and Microgrids” not be approved for inclusion in rates until
14 systematic and transparent distribution system planning can take place, in order to assess
15 the prudence of these investments.

16 **Q. Why does it matter whether these costs are attributed to CETA or not?**

17 **A.** It is important to correct the record to ensure that these numbers are not misinterpreted as
18 being representative of PSE's incremental costs for CETA implementation under RCW
19 19.405.060(3)(a).

20 **Q. Why is the incremental cost of CETA implementation an important consideration?**

- 1 A. Incremental cost is important because CETA creates a compliance pathway that is based
2 on a utility's actual incremental cost of meeting CETA's clean energy standards:

3 *"An investor-owned utility must be considered to be in compliance with the
4 standards under RCW 19.405.040(1) and 19.405.050(1) if, over the four-year
5 compliance period, the average annual incremental cost of meeting the standards
6 or the interim targets established under subsection (1) of this section equals a two
7 percent increase of the investor-owned utility's weather-adjusted sales revenue to
8 customers for electric operations above the previous year, as reported by the
9 investor-owned utility in its most recent commission basis report. All costs
10 included in the determination of cost impact must be directly attributable to
11 actions necessary to comply with the requirements of RCW 19.405.040 and
12 19.405.050."*⁸

13 Q. **Is the incremental cost of CETA implementation at issue in this proceeding?**

- 14 A. No. While the incremental cost of CETA implementation is not an issue in this
15 proceeding, it is likely to be an issue in future and pending proceedings. NWEC will
16 continue to advocate that PSE's erroneous attribution of costs to CETA in this case does
17 not justify their inclusion in its incremental cost calculation under review in Docket UE-
18 210795 or future dockets.

19 Q. **If the incremental cost of CETA implementation is not at issue in this docket, how
20 do you recommend the Commission address PSE's testimony relating to
21 incremental cost?**

⁸ RCW 19.405.060(1)(b)(iii).

1 A. I recommend that the Commission, in its Final Order in this proceeding, clarify that it
2 makes no determination concerning the incremental cost of CETA compliance in this
3 proceeding.

4 (3) **PSE's multi-year rate plan proposal fails to reflect Washington clean energy and**
5 **climate policy.**

6 Q. **How does PSE describe the relationship between its multi-year rate plan proposal**
7 **and Washington's clean energy and climate policies?**

8 A. PSE argues that financial support for its rate request is critical to meet the requirements
9 of CETA. PSE witness Adrian Rodriguez makes the following claim in his testimony:

10 *[W]ith the passage of CETA, PSE must invest in new technologies and resources*
11 *to provide more clean and sustainable energy while continuing to fulfill our*
12 *obligation to provide safe and reliable energy to our customers.... A multiyear*
13 *rate plan provides the opportunity to provide more certainty as we plan for a*
14 *clean energy future, to allow for the recovery of costs in a more timely fashion,*
15 *and to ease the administrative burden on the Commission. It is not sustainable for*
16 *PSE to continue toward these ambitious clean energy goals and to provide safe,*
17 *reliable electric and natural gas systems without timely recovery of the*
18 *investments and operating costs required to achieve these critical objectives. The*
19 *modified historical regulatory model for cost recovery will not allow companies*
20 *to transition, and fortunately, Washington has enacted a new law to enable the*
21 *transition. PSE must be financially healthy and must have the financial resources*
22 *to deliver the state's clean energy goals.”⁹*

⁹ AJR-1T, p. 9.

1 PSE witness Josh Jacobs further describes the connection between the CEIP and the
2 multi-year rate plan (MYRP):

3 *"PSE views the multiyear rate plan and the CEIP as two interrelated elements on
4 the path to regulatory implementation of the clean energy transition. The CEIP is
5 connected to the multiyear rate plan primarily through treatment of costs, and the
6 performance measures associated with the rate plan establish a means of
7 transparency and accountability for how PSE is executing its CEIP commitments,
8 especially in areas that are of primary importance to public policy goals."*¹⁰

9 **Q. What is your response?**

10 A. I agree that more certainty for PSE and its customers will be helpful as PSE embarks on
11 the transition required by CETA and the Climate Commitment Act (RCW 70A.65), and
12 that a multi-year rate plan is one tool that can help provide financial certainty to the
13 company, and rate stability for customers. I agree that part of the purpose of SB 5295 was
14 to help investor-owned utilities meet the requirements of CETA, as Mr. Rodriguez
15 suggests, and that the MYRP and the CEIP should be aligned to provide transparency and
16 accountability for CETA implementation. However, this purpose is not met in this case,
17 because PSE's filing puts the cart before the horse by failing to link its multi-year rate
18 plan with any concrete plan to implement Washington's new climate laws and policies.

19 **Q. Please explain why you think PSE has not properly linked its multi-year rate plan
20 with its plans for implementing CETA.**

21 A. NWEC was deeply involved in the negotiations of SB 5295 in the Legislature, and
22 ultimately supported the bill's passage. Among many other important elements of the

¹⁰ JJJ-1T, p. 24 at 16-21.

1 legislation, there was a broad consensus among stakeholders about the need for the multi-
2 year rate plan filing to align with the CEIP. During the March 16, 2021 hearing on the
3 bill before the House Energy & Environment Committee, several public comments were
4 made supporting this position¹¹:

5 *"The electric utilities are currently required to present to the commission for
6 approval Clean Energy Implementation Plans beginning later this year. And
7 those plans will lay out how the utilities intend to comply with CETA, what
8 investments they will make, what resources they will be looking at to achieve
9 those goals. And what we would say is then that this legislation [SB 5295] also
10 then allows the Commission to set rates in a forward-looking manner as well to
11 align how those investments are being made, with the recovery of those
12 investments and what the implications are in rates to customers so that is known
13 as we move forward into implementation of the Clean Energy [Implementation]
14 Plans. It aligns the approval of the investments with the recovery through rates of
15 those investments moving forward."*

16 - Ken Johnson, Vice President of Regulatory and Government Affairs, Puget
17 Sound Energy (40:54-42:02)

18 *"...[T]he passage of CETA in 2019 means that as utilities take steps to meet
19 CETA's requirements to move away from carbon-emitting resources, they'll be
20 filing with the Commission their forward-looking plans for how they're going to
21 do so. CETA requires the Commission to approve the Clean Energy*

¹¹ See recording of Mar. 16 8:00 a.m. hearing before the House Energy and Environment Committee.
<https://tvw.org/video/house-environment-energy-committee-2021031309/?eventID=2021031309>

1 *Implementation Plans in advance, which means we'll be preapproving future*
2 *investment decisions by the companies.... With the multi-year rate plans, we will*
3 *still set baseline rates based on historical costs, but will rely more on the*
4 *forecasts and trends to establish rates over a several-year period consistent with*
5 *the period of the plans the utilities file."*

6 - Dave Danner, Chair, Washington Utilities and Transportation Commission
7 (1:03:21-1:04:09)

8 *"I'll go back to the elements of CETA that we think laid out a very deliberate and*
9 *very planning-oriented approach to the clean energy transition for electric*
10 *companies. In particular, the companies right now are developing Integrated*
11 *Resource Plans which will then inform the development of Clean Energy*
12 *Implementation Plans for the Commission to approve, reject, or modify to ensure*
13 *that they are meeting the statutory requirements of CETA before those rate filings*
14 *go into effect. So, it's a very deliberate process whereby the planning happens*
15 *before the rates get approved."*

16 - Lauren McCloy, Policy Director, NW Energy Coalition (1:25:44-1:26:30)

17 PSE filed a Final CEIP in docket UE-210795 on December 17, 2021. However,
18 the Final CEIP is materially incomplete due to a lack of specific actions. In the absence
19 of an approved CEIP, or even proposed specific actions that represent what the company
20 actually intends to do, the linkage between the MYRP and the CEIP is nonexistent. The
21 result is that PSE is asking the Commission and customers to give revenue certainty to
22 the company—using CETA as a basis for its request—without any formal commitments
23 about how it plans to comply with CETA. An approved CEIP would have provided

1 customers with certainty of approved targets, customer benefit indicators, assurance of an
2 equitable distribution of benefits and burdens, and a set of approved specific actions. This
3 would have provided transparency and accountability around how PSE intends to make
4 progress toward meeting the CETA clean energy standards during the multi-year rate
5 plan which covers the implementation period. Instead, PSE has requested more certainty
6 for the company, while failing to do the same for customers. This is simply unreasonable
7 and unfair.

8 **Q. In your view, what is the role of performance-based regulation (“PBR”) in achieving**
9 **the goals and objectives of CETA?**

10 **A.** PBR can play a significant role in achieving the goals and objectives of CETA, by
11 aligning regulatory incentives with policy goals.

12 **Q. Has PSE made a comprehensive PBR proposal in this case?**

13 **A.** No, the company has not made a comprehensive proposal. Witness Ronald J. Binz for the
14 Joint Environmental Advocates offers an alternative proposal that would generate a
15 multi-year rate plan that aligns with PSE’s CEIP, and includes robust performance-based
16 regulation to ensure that PSE’s financial incentives are aligned with the public interest
17 goals of CETA.

18 **Q. In the absence of an approved CEIP, how do you recommend the Commission hold**
19 **PSE accountable to meeting its CETA targets and goals during the multi-year rate**
20 **plan?**

21 **A.** In the absence of an approved CEIP, customers can benefit from increased certainty of
22 performance and outcomes by adopting performance measures in this proceeding. NWECC
23 witness Amy Wheless’s testimony responds to the company’s proposed performance

1 incentive mechanisms (“PIMs”). As an alternative to financial incentives, Ms. Wheless
2 also discusses specific performance measures or metrics that can be adopted to track
3 PSE’s performance over the course of the multi-year rate plan. Our proposed metrics are
4 inspired by and consistent with the customer benefit indicators developed and submitted
5 by NWEC, Front and Centered, The Energy Project, and the Public Counsel Unit of the
6 Attorney General’s Office in Docket UE-210795.

7 **(4) PSE’s MYRP Fails to meet CETA’s Equity Mandate.**

8 **Q. Please explain the purpose of your testimony as it relates to equitable transition
9 issues.**

10 A. My testimony on equitable transition issues is intended to characterize CETA’s equity
11 mandate and how it should be considered as a part of the Commission’s broad public
12 interest standard. My testimony draws on my experience as the policy lead on CETA
13 during my time in Governor Inslee’s office, on NWEC’s commitment to advance equity
14 in our policy work, and on the comments of our co-intervenor in this proceeding, Front
15 and Centered, which is a coalition of community-based organizations that serve people of
16 color and with lower incomes.

17 NWEC has made a commitment to advance justice, equity, diversity, and
18 inclusion in our organization and in our advocacy, and has adopted an anti-racism
19 commitment and accountability statement. To fulfill these commitments, we have goals
20 with associated metrics geared towards:

- 21 • Ensuring that policy tables are prepared to meaningfully welcome leadership from
22 communities of color, people with lower incomes, and indigenous people, as we
23 continue to support capacity among these leaders.

- 1 • Reevaluating our policy, program, and decision-making processes so that the
2 organization is supporting efforts that create tangible and near-term benefits to the
3 hardest-hit communities.
- 4 • Ensuring our program work elevates partnerships and mutual trust with
5 community-based organizations working in the clean energy sector.

6 My testimony also draws from comments filed by one of our co-intervenors in
7 this proceeding, Front and Centered, in PSE's CEIP docket. These comments cover many
8 of the issues associated with PSE's implementation of the equity mandate in its CEIP.¹²

9 **Q. What is your understanding of how PSE is meeting the public interest standard, as
10 expressed in RCW 19.405.010(6)?**

11 A. PSE witness Josh Jacobs provides detailed testimony about the process that PSE led with
12 its Equity Advisory Group to develop customer benefit indicators ("CBIs").¹³ He further
13 explains the process that PSE went through to weigh CBIs to develop a portfolio of DER
14 concepts for inclusion in PSE's CEIP. PSE has provided no specific information about
15 how it has operationalized the requirement to demonstrate the equitable distribution of
16 energy benefits and reduction of burdens to vulnerable populations and highly impacted
17 communities; long-term and short-term public health, economic, and environmental
18 benefits and the reduction of costs and risks; and energy security and resiliency, as
19 required by RCW 19.405.040(8).

20 **Q. Why does CETA include an equity mandate?**

¹² Exh. LCM-5. Also filed as Front and Centered Comments on Puget Sound Energy 2021 Draft Clean Energy Implementation Plan pursuant to WAC 480-100-640 (Docket UE-210795) (March 2, 2022).

¹³ To our knowledge, the EAG did not formally endorse the company's proposed CBIs.

1 A. During the development and passage of CETA, stakeholders, including Front and
2 Centered, NWEC, Sierra Club, and other environmental groups, strongly advocated for
3 embedding a clear equity mandate into the legislation. In my experience, equity
4 considerations are playing an increasingly important role in the development of policy
5 governing critical sectors of the economy, including the utility sector. With regards to
6 energy policy, equity is being incorporated in response to learning about the
7 disproportionate harmful impacts that energy infrastructure—and disparities of service,
8 access, and ability to pay—have had on certain communities and vulnerable populations,
9 and the need to consider the human experience in our overall public interest
10 considerations.

For example, we know that racial inequities persist in the energy system and underlie other forms of oppression. Specifically:

- The Northwest hydropower system has contributed to cultural and economic harm inflicted on Indigenous communities and ecological collapse of many native and wild fisheries.
 - Communities of color are disproportionately located next to fossil fuel infrastructure and other energy-system-dependent sources of pollution, such as highways and industry, affecting their public health.
 - Many of these communities pay higher energy bills due to substandard housing and also have not fully benefited from weatherization and energy efficiency services.
 - Rural communities have not benefited from demand-side resources and other programs in the way that more urban customers have.

- There have been racial disparities in access to family wage jobs in the clean energy sector and in the energy-related trades; this has been particularly true in urban centers.

There are many forms of oppression that affect people in our region beyond racism, including ableism, classism, homophobia, transphobia, and gender-based discrimination. In a public policy context, it is important to be mindful of the intersectional nature of race, economic well-being, geography, and other factors to ensure that policies and institutions do not perpetuate past harms. By requiring an equitable distribution of benefits and reduction of burdens to highly impacted communities and vulnerable populations, CETA seeks to address past harms to a diverse set of named communities, while transitioning to a cleaner, more sustainable, and more just electricity system.

Q. Describe CETA's equity mandate, as you understand it.

A. The key policy changes enacted in CETA as it relates to equity are: (1) a shift in how the Commission interprets “fair and just” to not necessarily mean “equal,” but to take disparities in current conditions into account; and (2) the *responsibility of the utility* to ensure that all customers are benefiting from the transition to clean energy through the equitable distribution of benefits and reduction of burdens.

The main obligation is established in RCW 19.405.040(8):

*“In complying with this section, an electric utility must ...ensure that all customers are benefiting from the transition to clean energy: Through the **equitable** distribution of energy and nonenergy benefits and reduction of burdens to vulnerable populations and highly impacted communities; long-term and short-*

1 *term public health and environmental benefits and reduction of costs and risks;*
2 *and energy security and resiliency.”*

3 In passing CETA, the Legislature declared that it found that Washington can
4 transform its electricity system to clean energy, while also “maintaining safe and reliable
5 electricity to all customers at stable and affordable rates.”¹⁴ Further, the Legislature found
6 that the public interest “includes, but is not limited to: The **equitable** distribution of
7 energy benefits and reduction of burdens to vulnerable populations and highly impacted
8 communities; long-term and short-term public health, economic, and environmental
9 benefits and the reduction of costs and risks; and energy security and resiliency.”¹⁵
10 Specifically, “[i]t is the intent of the legislature that in achieving this policy for
11 Washington, there should not be an increase in environmental health impacts to highly
12 impacted communities.”¹⁶

13 The Commission has defined “equitable distribution” as “a fair and just, but not
14 necessarily equal, allocation of benefits and burdens from the utility’s transition to clean
15 energy. Equitable distribution is based on disparities in current conditions. Current
16 conditions are informed by, among other things, the assessment described in RCW
17 19.280.030(1)(k) from the most recent integrated resource plan.”¹⁷

18 **Q. What does successful implementation of CETA’s equity mandate look like for PSE,
19 in your opinion?**

¹⁴ RCW 19.405.010(4).

¹⁵ RCW 19.405.010(6) (emphasis added).

¹⁶ *Id.*

¹⁷ WAC 480-100-605.

1 A. PSE must apply CETA's equity mandate in its CEIP and associated decisions, but this is
2 only a first step. Successful implementation of CETA's equity mandate requires a
3 paradigm shift, such that PSE centers equity in every aspect of its company culture.
4 Ultimately, equity must be considered in all of PSE's planning and business cases, and in
5 every filing reviewed by the UTC. This may seem like a daunting task, but it is essential
6 that PSE set goals and work toward this end.

7 In the near-term, there are several simple steps that PSE could take to begin
8 making progress toward this goal. First, a tool like Seattle's Racial Equity Toolkit can
9 help an organization like PSE begin to assess its own policies, programs, and budgets
10 while centering the needs of highly impacted communities and vulnerable populations.¹⁸
11 PSE should create, in collaboration with named communities, its own version of an
12 equity lens to use in decision-making, and incorporate equity principles into its marketing
13 materials, annual reports, and corporate values statements.

14 Second, PSE must develop a deeper understanding of who is impacted by the
15 company's decisions, what those impacts are, and who is not represented in the
16 conventional stakeholder processes. PSE must reach beyond its typical stakeholders to
17 engage with communities directly on issues that impact them, and bring those
18 perspectives into its capital and business planning process. PSE should partner with
19 community-based organizations and customers with lived experience in their service area
20 to identify priorities for the energy transition.¹⁹ We also recommend direct consultation

¹⁸ Exh. LCM-6.

¹⁹ For example, see *Powering the Transition: Community Priorities for a Renewable and Equitable Future*. Puget Sound Sage (June 2020) <https://www.pugetsoundsage.org/research/clean-healthy-environment/community-energy/>

1 with Tribes, who are designated as highly impacted communities in RCW
2 19.405.020(23), and whose interests cannot be represented by any other group.²⁰

3 Third, PSE must develop and use tools to continually assess its progress toward
4 more equitable programs and processes and provide accountability as our collective
5 understanding of how to achieve equity in the energy utility context improves. In
6 collaboration with its Equity Advisory Group, PSE could use a tool like the Initiative for
7 Energy Justice’s Energy Justice Scorecard to evaluate its programs and budgets, to help
8 PSE assess its progress toward implementing procedural and distributive equity.²¹

9 Finally, as described in the testimony of Mr. Binz, PBR, if thoughtfully designed
10 and successfully implemented, could support PSE’s achievement of the equity mandate,
11 while delivering greater benefits to customers than business-as-usual.

12 **Climate Commitment Act and Gas Transition Issues**

13 **Q. What is the Climate Commitment Act?**

14 **A.** Enacted in 2021, the Climate Commitment Act (“CCA”) creates an economy-wide cap-
15 and-invest program. The cap-and-invest program works by setting a limit, or ‘cap,’ on
16 greenhouse gas emissions in the state, and then lowering that cap over time to ensure
17 Washington meets the greenhouse gas limits in RCW 70A.45.020. When it launches on
18 January 1, 2023, the cap-and-invest program will cover, among other entities, in-state
19 electricity generators, electricity importers, and natural gas distributors with annual

²⁰ “Highly impacted community” means a community designated by the department of health based on cumulative impact analyses in RCW 19.405.140 or a community located in census tracts that are fully or partially on “Indian country” as defined in 18 U.S.C. Sec. 1151.

²¹ <https://iejusa.org/workbook/>

1 greenhouse gas emissions above 25,000 metric tons of carbon dioxide equivalent. This
2 includes all of the Washington investor-owned utilities.

3 **Q. How does the CCA affect PSE's gas and electric service?**

4 A. The Department of Ecology is currently considering rules to implement the CCA. The
5 Final rules are expected to be adopted by October 2022 – during the adjudication of this
6 general rate case, and before rates go into effect. While the final rules are not yet adopted,
7 there is sufficient information about the CCA to begin to characterize the compliance
8 obligation for Washington electric and natural gas companies, estimate the revenue and
9 cost impacts, and to begin taking some near-term actions to address their compliance
10 obligations.²²

11 The CCA requires natural gas companies to reduce emissions by 7 percent per
12 year starting in 2023. For electric service, the CCA relies on CETA to reduce emissions
13 in the electricity sector. CCA provides for allocation of no-cost allowances to electric
14 utilities based on a forecast, using a cost burden methodology. The intent of this element
15 of the policy is to avoid double regulation and duplicative cost impacts in the application
16 of both CCA and CETA to electric utilities. Ensuring coordinated implementation of
17 CETA and CCA will be essential to appropriately allocate no-cost allowances, and
18 subsequently achieve the state's emission reduction targets. PSE's CCA obligation for its

²² See: Summary of Market Modeling and Analysis of the proposed Cap and Invest program. Economic and market modeling and analysis conducted by Vivid Economics for the Washington Department of Ecology. (June 2022) Available for download at <https://ecology.wa.gov/Air-Climate/Climate-change/Climate-Commitment-Act#auctions>

1 gas service is described in the testimony of Ed Burgess, witness for the Joint
2 Environmental Advocates.

3 **Q. What is your understanding of PSE's plans for complying with the CCA, and PSE's**
4 **assessment of potential costs and revenues under the program?**

5 A. PSE has not shared its plans for complying with the CCA. PSE states that it does not have
6 estimates of either costs or revenues associated with the sale or purchase of allowances
7 under the program.²³ To our knowledge, PSE has taken no specific actions to reduce its
8 CCA compliance obligation.

9 **Q. In your view, is it reasonable for PSE not to have a plan for complying with the**
10 **CCA at this time?**

11 A. No. At the time my response testimony was filed, the law has been in effect for one year,
12 and the program will start in five months. The fact that PSE has filed for an increase in
13 customer rates without sharing its preliminary plans for complying with CCA, or to
14 reduce its compliance obligation, presents considerable risks to customers.

15 **Q. What should PSE be doing to mitigate the costs and risks to customers associated**
16 **with its implementation of the CCA?**

17 A. The Joint Environmental Advocates' recommendations concerning PSE's need to reduce
18 emissions from its gas service are described in detail in the testimony of Mr. Burgess.
19 More broadly, NWECC believes that PSE should be taking steps now to mitigate
20 the costs and risks to customers associated with its implementation of the CCA for
21 electric and gas service, and to facilitate a longer-term, managed transition of its gas
22 system. In general, we recommend the following prioritization of actions:

²³ Exhs. LCM-7 and LCM-8.

1. Near-term: PSE should take actions to reduce its compliance obligation using commercially available technologies which are cost-effective for customers, in consultation with its advisory groups. PSE should ensure equitable access to programs and incentives, and tailor its service offerings to prioritize customers with the deepest need and highest energy burden.
 - a. Electric: plan for retirement and reduced dispatch of fossil fuel resources, and replacement with clean energy generation and customer-side resources, as required by CETA. Decarbonizing the electric grid and shifting residential and commercial energy use to electric service is the most cost-effective and least risky way to comply with the CCA—as explained in the testimony of Mr. Burgess.
 - b. Gas: slow growth on the gas system by eliminating subsidies for new customers, and focus on electrifying end-uses for which cost-efficient electric alternatives are available, such as residential and commercial space and water heating.
 2. Medium-term: PSE should plan for decarbonization, consistent with the emissions reduction pathway in the CCA. PSE should incorporate decarbonization pathways analysis into all of its planning, with the goal of identifying the lowest reasonable cost pathways to decarbonize its dual-fuel system. As cost-effective solutions are identified, PSE should adaptively manage its program portfolios to incorporate new service offerings. As proceeds from the sale of allowances become available for reinvestment, PSE should work with its advisory groups to identify opportunities to provide the greatest benefits to customers.
 3. Long-term: PSE should outline a long-term plan for a managed transition of its gas system, given the need to decarbonize, maintain affordable energy services, and

1 protect overburdened communities and vulnerable populations. PSE's long-term plan
2 should identify the highest and best use for limited supplies of clean fuels, such as
3 renewable natural gas ("RNG") and renewable hydrogen. And, PSE, in coordination
4 with the Commission and stakeholders, should examine regulatory tools for
5 mitigating the rate impacts to existing natural gas and electricity customers as the
6 number of gas customers declines and the number of electricity customers increases.

7 **Distribution System Planning**

8 **Q. Earlier you mentioned PSE's "lack of a robust distribution system planning effort"**
9 **when speaking to its proposed grid modernization costs. Could you expand on this**
10 **point?**

11 **A.** Yes, certainly.

12 **Q. What do you mean by a "robust distribution system planning effort"?**

13 **A.** A robust distribution system planning process involves identifying and promoting
14 investment by *utilities and customers* to expand the carrying capacity and optimize the
15 operation of the distribution system. A key difference from traditional distribution
16 planning is that a primary goal is to identify ways that connected customer-side resources
17 can provide system value for all customers, as well as other benefits including improved
18 operating conditions for the utility. A robust distribution system planning process allows
19 for community input, which can help identify options and priorities for community-based
20 resources. It also provides for the fair treatment of all measures that can enhance
21 distribution carrying capacity, improve operations and ultimately enhance customer
22 value—not just measures that are owned and controlled by the utility. A well-executed
23 distribution system planning process can provide the analytical support and stakeholder

1 buy-in necessary to move ahead with an ambitious and long-term grid modernization and
2 DER deployment strategy.

3 **Q. What distribution system planning efforts has PSE conducted?**

4 **A. PSE conducts “Delivery System Planning,” which is described on its website as follows:**

5 *“Delivery system planning is the engineering function of evaluating how PSE’s*
6 *energy delivery system must operate in order to meet customer needs and*
7 *identifying solutions to predicted deficiencies under various conditions in order to*
8 *ensure reliable delivery of energy into the future.”²⁴*

9 This type of “Distribution planning” has been a core function of utility internal
10 operations for decades. It has been essentially an engineering exercise to assure that
11 equipment and operations in the local grid can support current and anticipated peak load
12 conditions, generally on a feeder-by-feeder basis, as well as at the substation and
13 aggregate system level.

14 **Q. How is “distribution system planning” different than what PSE already does and**
15 **why is it necessary?**

16 A. “Distribution system planning” is an evolution of this core function, and not intended to
17 displace it, but rather to build on it and provide a new set of integrated planning tools,
18 methods and broader stakeholder participation. This evolution is necessary for three
19 reasons:

20 First, rapid innovation of technology, policy, and markets is giving customers a
21 more active role in managing their own energy use, as well as providing services back to
22 the grid. This requires a more comprehensive assessment of system capability and

²⁴ <https://www.pse.com/IRP/Current-IRP-Process/Delivery-system-planning>

1 operations, connecting various planning processes and encouraging broader participation
2 by customers and other stakeholders.

3 Second, more diverse and often interconnected third-party providers and networks
4 are augmenting the distribution network and customer equipment behind the meter. This
5 requires changes to planning tools and data resources. It also has implications for the
6 interconnected nature of the distribution system and supply and demand-side resources.

7 Third, distribution system planning would provide the engineering and analytical
8 backing to support customer and utility DER investments based on system benefits – i.e.,
9 avoided transmission and distribution system investments. This element is missing from
10 PSE’s CEIP, which takes a budget-driven approach to designing a DER program, and
11 lacks an integrated approach to planning for demand-side resources.

12 During the last PSE General Rate Case, the topic of distribution system planning
13 was raised by Public Counsel, who recommended that the company establish a
14 stakeholder process and file distribution system plans. While the company and the
15 Commission declined to take action on these recommendations at that time, the
16 importance of distribution system planning has only grown, and is particularly at issue in
17 this case given the substantive investments that PSE is proposing to make as part of this
18 case in grid modernization and DER enablement. These investments are discussed in
19 detail in the testimony of Josh Keeling.

20 **Q. Has NWECC developed principles that it recommends utilities adopt in developing
21 DSPs?**

- 1 A. Yes. As part of our ongoing work on this topic in Oregon,²⁵ NWEC promotes the
2 following principles, which I also recommend that PSE adopt as part of a robust
3 distribution system planning process:
- 4 1. Maximize value to customers.
5 2. Be inclusive.
6 3. Provide for equity, access and the needs of vulnerable and highly impacted
7 communities.
8 4. Support state climate and energy goals.
9 5. Support community resilience strategies, especially weather, climate and seismic risk.
10 6. Be transparent in distribution system planning process, metrics and methods.
11 7. Use a consistent analytical approach, while recognizing differences across the
12 distribution system, for example at the feeder level.
13 8. Incorporate an open approach to data sharing, except where precluded for specific
14 reasons of security, privacy and demonstrated business confidentiality.
15 9. Consider all resources and options, both wires and non-wires.
16 10. Be technology agnostic, while recognizing trends in technology innovation and
17 diffusion.
18 11. Promote competition of measures and suppliers while recognizing the core
19 responsibilities of the utility to provide safe and reliable service.
20 12. Use a scenario approach to assess feasible futures, especially those driven by state
21 climate/clean energy goals (e.g., transportation electrification).

²⁵ See Oregon Public Utility Commission Docket UM 2005.

13. Ensure close coordination with utility integrated resource planning and transmission planning.
 14. Enhance visibility/situational awareness of the distribution system, demand patterns and flexible demand management for overall utility operations.
 15. Provide necessary data for rate design, cost allocation and recovery, and for appropriate compensation to customers for providing value to the system.
 16. Support physical and cyber security.

Q. Has the Legislature provided guidance on Distributed Energy Resources (DERs) or Distribution System Planning?

A. Yes. RCW 19.280.100 establishes goals for Distributed Energy Resource planning.

Q. Is it reasonable for PSE to follow this guidance when developing a plan to deploy Distributed Energy Resources?

A. Yes.

Q. Has PSE developed a Distributed Energy Resources plan?

A. No.

Q. What do you recommend regarding PSE's need for a robust distribution planning process?

A. I recommend that PSE submit a robust and deliberative distribution system plan. The plan should be developed in consultation with stakeholders; however, we are not necessarily recommending a separate advisory group for this purpose. The company should submit a distribution system plan every two years, in conjunction with its CEIP and CEIP update.

Transportation Electrification

Q. Describe PSE's transportation electrification request.

1 **A.** Transportation electrification will be a critical tool in meeting Washington’s climate
2 goals. PSE has begun investing in transportation electrification infrastructure, and has
3 requested to recover the deferral authorized in Docket UE-190129 in this proceeding.
4 PSE seeks recovery of the deferrals, including the return on those investments in
5 Adjustment 6.52, as discussed in the testimony of William Einstein. PSE states that it is
6 operating the projects consistent with Washington law and the Commission’s policy
7 statement.

8 **Q. What is NWEC’s assessment of PSE’s transportation electrification investments?**

9 **A.** PSE launched their Up & Go Electric program in 2018. Up & Go Electric is a portfolio of
10 transportation electrification (TE) measures including investments in education and
11 outreach, residential charging, public charging, workplace and fleet charging, multi-
12 family charging, and low-income customer pilots. The company has worked to
13 implement a diverse set of programs that serve various customer needs and has continued
14 efforts to increase stakeholder and customer input in the development and
15 implementation of TE measures. The Up & Go Electric program has demonstrated
16 positive results with some measures over-subscribed.²⁶ However, load management
17 across the company’s current TE measures is insignificant. Further, while the low-income
18 customer pilots are promising, we hope to see the Company increase the scale of these
19 measures to more meaningfully benefit low-income customers.

20 **Q. What is the policy context for PSE’s request?**

²⁶ Summary of results can be found in annual reports or in PSE’s TE Plan (UE 210191).

1 A. RCW 80.28.360 authorizes the Commission to allow an incentive rate of return on utility
2 investments on capital expenditures for electric vehicle supply equipment (EVSE) that is
3 deployed for the benefit of ratepayers through December 31, 2030, subject to a rate
4 impact cap of one-quarter of one percent per year. This law was enacted in 2015, and was
5 one of the first Washington statutes supporting utility investment in EVSE. Since the
6 passage of RCW 80.28.360, Washington has enacted several significant policies which
7 further support transportation electrification, including a Clean Fuel Standard, Zero
8 Emission Vehicle standard, Advanced Clean Trucks, alternative fuel vehicle tax
9 incentive, and standards for publicly accessible charging. In addition, in 2021, the
10 Legislature passed SB 5295, which requires the Commission to consider performance
11 measures for multi-year rate plans. While the incentive rate of return authorized in RCW
12 80.28.360 remains available to utilities, it is no longer the only policy tool available to
13 support utility investment in EVSE.

14 Q. What is NWEC's response to PSE's request for an incentive rate of return on
15 Electric Vehicle Supply Equipment (EVSE) investments?

16 A. NWEA proposes an alternative approach to incentivize EVSE investments, which is more
17 aligned with the current policy landscape established by SB 5295 (which supports the
18 adoption of performance incentive mechanisms), and tailored to the specific needs and
19 challenges of PSE's system and transportation electrification (TE) programs.

First, we propose a TE demand side management performance incentive mechanism (PIM), which will ensure that utility-supported TE load is managed going forward. This proposal is described in detail in the testimony of Amy Wheless and is in contrast to the TE PIM proposed by the company. The purpose of NWECS proposed

1 PIM is to help mitigate the impacts of PSE's TE programs on peak system load, and
2 avoid potential expensive transmission and distribution system upgrades to meet growing
3 peak needs. Ms. Wheeless also recommends performance metrics to track PSE's progress
4 toward meeting the goals of its TE plan.

5 **Q. What is NWEC's response to PSE's request for cost recovery of the TE deferral?**

6 A. We recommend that the deferral be included in rates, subject to a requirement that PSE
7 make certain payment methods available at all publicly available electric vehicle supply
8 equipment owned or supported by the utility. In order to increase access to all customers,
9 including customers in named communities, minimum payment methods should be
10 consistent with California's EVSE Standards, § 2360.2, titled "Payment Method
11 Requirements for Electric Vehicle Supply Equipment."

12 **Q. Why is it important for PSE to adhere to the California EVSE standards for
13 payment methods?**

14 A. In 2021, the Washington legislature passed SB 5192, which among other things, requires
15 all publicly accessible electric vehicle charging stations to offer multiple payment
16 methods. The bill requires the Washington Department of Agriculture to adopt rules to
17 implement this statewide requirement under its weights and measures authority. The draft
18 rule language, issued on April 11, 2022, aligns with California's minimum payment
19 method standards, which require three minimum payment methods:

- 20 ○ A credit card reader that accepts an Europay, Mastercard, and Visa ("EMV") chip
21 at the EVSE unit or a kiosk
22 ○ A mobile payment device on the EVSE unit or kiosk
23 ○ A toll-free number on each EVSE unit or kiosk

1 The inclusion of all three payment methods is essential because it is necessary to
2 facilitate charging sessions for unbanked, underbanked, or low-moderate income drivers,
3 as required by RCW 19.94.565.²⁷ In particular, EMV chip card readers provide the
4 broadest convenient and reasonable access to EV charging. According to the California
5 Air Resources Board’s (“CARB”) Technology Review, over 85 percent of all card-
6 present transactions globally used EMV chip technology and EMV chip cards will
7 continue to be the foundation for payment processing. Further, 43 percent of drivers with
8 annual incomes less than \$50,000 do not have a tap card and 30 percent of drivers with
9 incomes less than \$50,000 do not have access to smartphones with contactless payment
10 ability.²⁸

11 Credit card-issuing companies and EMVCo, the consortium that manages the
12 EMV standard, have indicated that EMV chip cards will continue to be the foundation for
13 payment processing while tap payment is rolled out. Notably, veterans’ benefits, social
14 security and SSI disability payments are paid out on the Direct Express Debit
15 MasterCard, when an individual does not have access to a bank account.²⁹ This is an
16 EMV chip card, which does not have tap/contactless payment capability. Credit card
17 readers are therefore one way to make it easier for consumers to use this equipment, and

²⁷ This section states: “at a minimum, the rules adopted by WSDA must include “means for facilitating charging sessions for consumers who are unbanked, underbanked, or low-moderate income, such as accepting prepaid cards through a card reader device. Methods established in (e) of this subsection may be used to meet this requirement if they adequately facilitate charging sessions for these consumers.”

²⁸ CARB’s EVSE Standards Technology Review: <https://ww2.arb.ca.gov/sites/default/files/2022-02/EVSE%20Standards%20Technology%20Review%204Feb22.pdf>

²⁹ <https://fiscal.treasury.gov/directexpress/>

1 to expand access to these services to vulnerable populations, which is critical to meeting
2 our climate goals and equity goals.

3 **Q. What is the cost of installing EMV chip card readers for EVSE?**

4 A. While we have seen exorbitant cost estimates from utilities and charging providers, these
5 stand in sharp contrast to CARB's data, which estimates upfront costs for EMV chip
6 readers at \$371 per unit on average, a cost which could occur at each EVSE, or could be
7 shared at a common kiosk for multiple EVSE. Ongoing annual operating and
8 maintenance costs were estimated to be \$270 per unit per year. In addition, CARB's 2022
9 Electric Vehicle Supply Equipment Standards Technology Review states that "[CARB]
10 staff have not seen any evidence that this cost [of EMV credit card readers] is reducing
11 the number of EVSE units installed in California."³⁰

12 **Q. Are there security concerns with using EMV chip card readers that would warrant
13 not requiring them for all publicly accessible utility-sponsored EVSE?**

14 A. No. According to CARB, EMV chip cards are as secure as contactless cards because they
15 both use the same security standards for transactions:

16 *"Every chip and contactless transaction uses a one-time use cryptographic code
17 that prevents counterfeit fraud. Whether a customer is using a tap-to-pay card or
18 inserting your EMV chip card, the sensitive information sent is encrypted. A
19 unique, one-time-use code is created for the transaction instead of sending a
20 customer's name, billing address, CVV code, or zip code. This is called*

³⁰ CARB's EVSE Standards Technology Review: <https://ww2.arb.ca.gov/sites/default/files/2022-02/EVSE%20Standards%20Technology%20Review%204Feb22.pdf>

1 ‘tokenization.’ So, even if a thief intercepted a contactless or chip transaction,
2 they could not use that to replicate a card.”³¹

3 PSE has extensive experience ensuring grid and customer security. We have high
4 confidence that PSE can provide equitable access to publicly available charging stations
5 by installing EMV chip card readers, while ensuring the highest level of security.

6 **Q. Why are EVSE payment methods an issue that should be addressed in this case?**

7 A. PSE has an obligation to serve electric customers. In the case of publicly accessible
8 EVSE, this means that the company’s infrastructure must be able to serve as many
9 customers as possible in a nondiscriminatory and equitable manner. Nonparticipating
10 customers also benefit from high utilization of utility-owned EVSE, which is enabled by
11 access to multiple payment methods. Accessibility, equity, and utilization are all
12 appropriate factors to consider when evaluating the prudence of PSE’s investments in
13 publicly accessible charging infrastructure, and ensuring that these projects provide the
14 maximum benefits to customers.

15 **Decoupling**

16 **Q. What is your understanding of PSE’s decoupling proposal?**

17 A. PSE has proposed to continue the decoupling mechanisms for the term of the multi-year
18 rate plan. PSE has not proposed any substantive changes to its decoupling mechanisms.³²

19 **Q. What is your response to PSE’s proposal to continue the decoupling mechanism?**

20 A. We agree with the company on the need to continue the decoupling mechanisms. While
21 the transition to performance-based regulation, and the need to invest in electrification

³¹ *Id.*

³² JAP-1T at 36 and BDJ-1T at 56.

may warrant a discussion about modernizing the mechanism in the future, decoupling is and will remain an important tool used in ratemaking to address the disincentive to invest in energy efficiency and conservation.

Colstrip

Q. What is your understanding of PSE's testimony as it relates to Colstrip operations?

- A. PSE witness Ronald J. Roberts states that PSE is obligated under the Ownership and Operations Agreement dated May 6, 1981 (“O&O Agreement”) to fund costs to operate and maintain Units 3 and 4 as long as the company holds an ownership share in Colstrip. PSE “continues to evaluate opportunities to exit its ownership and involvement in Colstrip in order to comply with CETA and state policy objectives.”³³ However, PSE states that the opportunity for a closure agreement has yet to materialize.³⁴ As a result, PSE has included in this rate case proposed capital costs for multiple projects in 2022-2025 intended to extend the life of the plant.

Q. What is your response?

A. The economics of Colstrip Units 3 & 4 have been declining for years, and continue to decline. This issue is discussed in depth in NWEC's and PSE's testimonies in Docket UE-200115,³⁵ and in NWEC's testimony before the Montana Public Service Commission in Docket 2019.12.01.³⁶ As discussed in detail in the testimony of Nancy E. Hirsh in

³³ RJR-1CT, p. 71 at 18-19.

³⁴ RJR-1CT, p. 71 at 19-20.

³⁵ Docket UE-200115, RJR-01T and NEH-01T.

³⁶ See: *Electric General Rate Review of Northwestern Energy*, Direct Testimony of Ronald J. Binz, MPSC Docket No. 2019.12.101 (Sept. 25, 2020).

1 docket UE-200115, due to CETA, Colstrip will no longer be used and useful to
2 Washington ratepayers after 2025.

3 **Q. What is your recommendation regarding PSE's proposed Colstrip capital
4 expenditures in this case?**

5 A. All expenditures which are not associated with decommissioning and remediation of the
6 plant should not be included in rates in this proceeding. Under CETA, PSE must remove
7 all coal-fired power from customer rates by the end of 2025. This means that planned
8 expenditures made during the rate plan will be no longer used and useful by the end of
9 the rate plan. For proposed expenditures which are not part of an approved budget, the
10 Commission should preemptively disallow these investments to provide certainty to
11 customers and the company.

12 We specifically recommend that the following capital expenditures be
13 disallowed:

14 *2022: Dry Ash Waste Disposal System*

15 This project, originally intended to be operational by June 2022, should not be
16 included in rates at this time. PSE has not demonstrated that this facility currently is used
17 and useful, and Talen has provided notice of a force majeure event and anticipated delay
18 of the project due to supply chain disruptions.³⁷ Given the Montana legislation and
19 arbitration described in the testimony of Ronald J. Roberts, and the Talen bankruptcy,

³⁷ Exh. LCM-9.

1 there is too much uncertainty about the future of units 3 & 4 for this project to be deemed
2 prudent.³⁸

3 Further, we note that the plaintiffs in the Montana litigation have offered to
4 revisit the settlement terms that required this project, in exchange for an agreement on
5 closure of the plant.³⁹ We appreciate PSE's good-faith efforts to engage in this
6 conversation.⁴⁰ However, this engagement does not change the fact that this project is not
7 currently used and useful to Washington customers, nor will it be used and useful after
8 2025. Given that this project only has value for a plant with an extended useful life, rather
9 than facilitate decommissioning and remediation, the costs should not be included in rates
10 to PSE customers.

11 *2023: Final Superheat Section Replacement (Unit 4) and Heavy Equipment
12 Replacement*

13 According to PSE, the benefits of the Unit 4 Superheat section replacement
14 include improved efficiency / lower heat rate, PM2.5 and NOx emissions reductions, and
15 preventative maintenance. This project was proposed by Talen MT for the 2020 major
16 maintenance event at Colstrip Unit 4 and was not approved by the owners.⁴¹ The Heavy
17 Equipment Replacement project is a proposal to replace a 1983 vintage 992C loader
18 needed to move coal at the facility. If approved, neither of these projects would be used

³⁸ <https://www.eenews.net/articles/bankruptcy-filing-complicates-outlook-for-western-coal-giant/>
https://mtstandard.com/news/judge-orders-talen-to-produce-plan-for-colstrip/article_0455582d-105b-5d2f-adc9-465b7c59e8f6.html

³⁹ Exh. RJR-23.

⁴⁰ RJR-1CT, p. 98 at 1-13 and RJR-23.

⁴¹ RJR-1CT, p. 93 at 5-23.

1 and useful to Washington customers starting in 2026. Given that these projects are clearly
2 meant to extend the life of the plant and are not associated with decommissioning and
3 remediation, the costs should not be included in rates to PSE customers.

4 *2024 – 2025: All proposed capital projects*

5 Proposed projects for 2024-2025 are not part of an approved budget, but have
6 been included in the revenue requirement for this case. The projects listed in Table 13 of
7 RJR-1CT are meant to extend the life of the plant and are not associated with
8 decommissioning and remediation. Therefore, the costs should not be included in rates to
9 PSE customers. Furthermore, there is no guarantee—and indeed, it seems unlikely—that
10 Colstrip will be operational in 2024. It would not be prudent, therefore, to include these
11 costs in the revenue requirement given their unlikely implementation.

12 **Q. Why is it important for the Commission to disallow these expenditures?**

13 A. Sending the message that Washington customers will no longer foot the bill for life-
14 extending investments at Colstrip is not only consistent with the intent of CETA, but it
15 will also provide necessary certainty to the owners, and protect Washington customers
16 from further entanglement in complex legal fights between the Colstrip owners. NWEA
17 and other stakeholders have previously asked the Commission to act preemptively to
18 protect customers from sinking more money into the continued operation of this plant.⁴²
19 Although the Commission has so far declined to do so, it's not fair to customers to keep
20 kicking this can down the road. In our view, the policy, market conditions, and common
21 sense weigh in favor of disallowance of any life-extending investments. We urge the
22 Commission to disallow these costs for recovery in rates.

⁴² See Docket UE-210241: Request to Initiate Investigation on behalf of NGOs.

1 **Q. What is your response to PSE's proposal for a Colstrip tracker?**

2 **A.** The company has proposed that a 60-day review period for the annual tracker filing. This
3 is not sufficient time for stakeholders to review the filing for prudence. We recommend a
4 120-day review period.

CONCLUSION

5 **Q. Could you please summarize your recommendations?**

6 **A.** Yes. I recommend:

- 7 1. The company should be required by the Commission to issue a correction of its public
8 statements concerning CETA costs with its final press release announcing the
9 outcome of this proceeding. The statement should clarify for customers that CETA
10 did not drive the company's rate request in this case, and describe when and how the
11 company intends to recover the costs of CETA implementation, including the costs of
12 resources in its CEIP.
- 13 2. The Commission, in its Final Order in this proceeding, should clarify that it makes no
14 determination concerning the incremental cost of CETA compliance in this
15 proceeding.
- 16 3. PSE's capital expenditures for Grid Modernization and DER Enablement should be
17 supported by a robust distribution system planning process, a more ambitious
18 Demand Response target, and a long-term programmatic commitment to and strategy
19 for DER enablement. The costs for these projects should not be attributed to CETA,
20 or included in the CETA incremental cost calculation.

1 4. In order to achieve CETA's equity mandate, equity must be considered in all of
2 PSE's planning and business cases, and in every filing reviewed by the UTC. In the
3 near-term, PSE should:

- 4 a. Use an equity lens during the planning phase to assess its own policies and
5 programs;
- 6 b. Incorporate equity principles into its marketing materials, annual reports, and
7 corporate values statements;
- 8 c. Engage with communities directly on issues that impact them, and bring those
9 perspectives into its capital and business planning process; and
- 10 d. Continually evaluate its programs and budgets for progress in implementing
11 procedural and distributive equity.

12 5. In order to reduce its compliance obligation under the Climate Commitment Act, PSE
13 should:

- 14 a. Near-term: take actions to reduce its compliance obligation using commercially
15 available technologies which are cost-effective for customers, in consultation with
16 its advisory groups. PSE should ensure equitable access to programs and
17 incentives, and tailor its service offerings to prioritize customers with the deepest
18 need and highest energy burden.
 - 19 i. Electric: plan for retirement and reduced dispatch of fossil fuel resources,
20 and replacement with clean energy generation and customer-side
21 resources, as required by CETA, to facilitate a transition to decarbonized
22 energy services.

- 1 ii. Gas: slow growth on the gas system by eliminating subsidies for new
2 customers, and focus on electrifying end-uses for which cost-efficient
3 electric alternatives are available – such as residential and commercial
4 space and water heating.
- 5 b. Medium-term: plan for decarbonization, consistent with the emissions reduction
6 pathway in the CCA. PSE should incorporate decarbonization pathways analysis
7 into all of its planning, with the goal of identifying the lowest reasonable cost
8 pathways to decarbonize its dual-fuel system. As cost-effective solutions are
9 identified, PSE should adaptively manage its program portfolios to incorporate
10 new service offerings. As proceeds from the sale of allowances become available
11 for reinvestment, PSE should work with its advisory groups to identify
12 opportunities to provide the greatest benefits to customers.
- 13 c. Long-term: outline a long-term plan for a managed transition of its gas system,
14 given the need to decarbonize, maintain affordable energy services, and protect
15 overburdened communities and vulnerable populations. PSE’s long-term plan
16 should identify the highest and best use for limited supplies of clean fuels, such as
17 renewable natural gas (“RNG”) and renewable hydrogen. And, PSE, in
18 coordination with the Commission and stakeholders, should examine regulatory
19 tools for mitigating the rate impacts to existing natural gas and electricity
20 customers as the number of gas customers declines and the number of electricity
21 customers increases.

6. The Commission should provide guidance to PSE for conducting a robust distribution planning process, as a condition of approving some of PSE's grid modernization and DER enablement costs, as discussed in the testimony of Josh B. Keeling.

7. PSE's Transportation Electrification (TE) deferral should be included in rates, subject to a requirement that PSE make certain payment methods available at all publicly available electric vehicle supply equipment owned or supported by the utility. In order to increase access to all customers, including customers in named communities, minimum payment methods should be consistent with California's EVSE Standards, § 2360.2, titled "Payment Method Requirements for Electric Vehicle Supply Equipment."

8. PSE's decoupling mechanism should be continued.

9. All capital expenditures for Colstrip which are not associated with decommissioning and remediation of the plant should not be included in rates. For proposed expenditures which are not part of an approved budget, the Commission should preemptively disallow these investments to provide certainty to customers and the company. The review period for PSE's Colstrip tracker annual filing should be increased to 120 days.

Q. Does this conclude your testimony?

A. Yes, it does.