EXH. LCM-1T
DOCKETS NOS. UE-240004/UG-240005
2024 PSE GENERAL RATE CASE
WITNESS: LAUREN MCCLOY

BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	DOCKET NOS. UE-240004 and UG-240005 *(Consolidated)*

RESPONSE TESTIMONY (NONCONFIDENTIAL)

OF

LAUREN MCCLOY

ON BEHALF OF

JOINT ENVIRONMENTAL ADVOCATES

August 6, 2024

JOINT ENVIRONMENTAL ADVOCATES

RESPONSE TESTIMONY (NONCONFIDENTIAL) OF LAUREN MCCLOY

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I. INTRODUCTION AND SUMMARY

Q. Please state your name and position.

A. My name is Lauren McCloy. I am the Policy Director of the NW Energy Coalition (NWEC), an alliance of over 100 environmental, civic, and human service organizations; utilities; businesses; and individuals in the Pacific Northwest. NWEC's mission is to advance clean, equitable, and affordable energy policies for Northwest communities.

Q. Please describe your employment and education background.

A. Prior to joining NWEC, I worked as Senior Policy Advisor to Washington State Governor Jay Inslee, where I managed a broad range of issues in support of the Governor's energy agenda. Before that, I served in several capacities at the Washington Utilities and Transportation Commission (UTC or Commission). I first worked as a Compliance Investigator in the UTC's Consumer Protection Division. Beginning in 2014, I was a policy advisor to Commissioners on energy policy and legislative issues. I then became the Legislative Director for the UTC, where I served as the Commission's liaison to the State Legislature and the Governor's office and was responsible for developing and coordinating the UTC's legislative activities. Besides these roles, I have experience working for the Washington State Senate Ways and Means Committee and several non-profit organizations focused on renewable energy, energy efficiency, and consumer advocacy. I hold a B.A. from the University of North Carolina at Chapel Hill and an M.S. in International Development from Tulane University Law School.

Q. Please state your experience with energy regulation and proceedings before public utility commissions.

A. I have approximately 12 years of experience reviewing, analyzing, and advocating for local, state, and federal energy and climate policies and regulations. My work has included analyzing

how rate structures, in conjunction with state and local policies, encourage or discourage the adoption of energy efficiency and clean energy resources. I have participated in Commission proceedings both as UTC staff and as an advocate on behalf of nonprofit clean energy organizations. For more information, please see my resume attached.

Of particular relevance to this proceeding:

- I have engaged in a number of Washington UTC proceedings, including intervening and providing testimony in UE-210795 (PSE Clean Energy Implementation Plan), UE-220066 / UG-220067 (PSE General Rate Case), and submitting comments in U-230161 (Facilitation of a Commission-led workshop series on the Climate Commitment Act.)
- In Docket No. UE-210795, I provided testimony regarding PSE's first Clean Energy Implementation Plan under the Clean Energy Transformation Act (CETA), and recommended that PSE increase its targets for demand response, develop specific actions to comply with CETA, and adopt new customer benefit indicators to measure and track achievement of equity goals.
- In Docket No. UE-220066 / UG-220067, I provided testimony on CETA implementation issues, Climate Commitment Act (CCA) and Gas Decarbonization Issues, Distribution System Planning, Transportation Electrification, and Colstrip.

Q. What materials did you review in preparing this testimony?

A. I have reviewed the prefiled testimony filed by PSE on February 15, 2024.

Q. What is the purpose of your testimony, and how is your testimony organized?

A. The purpose of my testimony is to: (1) address PSE's progress toward implementing the Clean Energy Transformation Act (CETA) and how it supports the JEA recommendations in this case, (2) describe the purpose and intent of the Climate Commitment Act and the Washington

Decarbonization Act for Large Combination Utilities (ESHB 1589) and how those laws support the JEA recommendations in this case, and (3) recommend changes to PSE's Demand Response Performance Incentive Mechanism to make the mechanism more effective.

II. PSE IS MAKING REASONABLE PROGRESS TO IMPLEMENT CETA, BUT THE NEXT FEW YEARS ARE CRITICAL FOR MEETING THE CLEAN ENERGY STANDARDS.

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

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

- PSE must remove coal power from rates by the end of 2025.
- PSE's electricity must be "greenhouse gas neutral" by 2030. As described in RCW 19.405.040, eighty percent of this standard must be achieved through the use of non-emitting electric generation and electricity from renewable resources, and twenty percent may be met through alternative compliance options.
- PSE's electricity must be 100 percent clean by 2045. As described in RCW 19.405.050, this standard must be met using a combination of non-emitting electric generation and electricity from renewable resources.

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

CETA also prescribes a new public interest standard, which requires utilities to "...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-term public health and environmental benefits and reduction of costs and risks; and energy security and resiliency." (RCW 19.405.010(6).) This new standard is also expressed as a mandate for utilities 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- term public health and environmental benefits and reduction of costs and risks; and energy security and resiliency."*

Q. How is CETA relevant to this general rate case?

A. As PSE witness Matt Steuerwalt contends, the financial support sought by PSE is "critical". If PSE's proposed rate relief is not granted, Steuerwalt testifies that, "PSE will need to make difficult choices and defer investments, such as those supporting the clean energy transition in favor of investments in safety and reliability, thereby compromising PSE's ability to make early progress in achieving CETA's objectives and creating greater challenges in future years." This is not an empty threat. The JEA's assessment of PSE's situation supports the same conclusion. It is difficult to see how PSE can meet CETA's 2030 clean energy standard (and support decarbonization of the transportation and building sectors) without financial support to enable the Company to make the significant investments that are necessary. PSE is making reasonable progress to implement CETA, but PSE's actions in the next few years are critical for meeting the 2030 clean energy standard. PSE will be in constant acquisition mode for the foreseeable future, and the need for new resources will put unprecedented pressure on customer rates, as evidenced by the proposed rate increase in the Company's initial filing. As

2030 is quickly approaching, the outcome of this general rate case will have a meaningful effect on how and whether PSE meets the 2030 standard and supports achievement of CETA's equity mandate. The JEA testimony reflects our acknowledgement that the landscape has changed, and the regulatory paradigm must adapt. Ratemaking treatment and measures which may have been considered extraordinary in the past may now be necessary to serve the public interest under these new circumstances.

Q. Has PSE demonstrated that it is making reasonable progress to implement CETA's clean energy standards?

A. Yes. I have reviewed PSE's work plan filed in dockets UE-240433/UG-240434 (consolidated), in which the Commission found that PSE had demonstrated reasonable progress toward achieving the clean energy standards. Since finalizing its 2021 Integrated Resource Plan (IRP), PSE has issued nine requests for proposals (RFPs) for long-term resources to meet energy needs, capacity needs, or a combination of both. Notably, on July 1, 2024, PSE issued a Voluntary All-Source RFP for CETA-compliant Energy and Capacity Resources which, according to Clearing Up, is one of the largest procurement requests ever sought in the Northwest.[1] The All-Source RFP seeks bids from qualified respondents to supply up to 2.3 million annual megawatt hours ("MWh") of Clean Energy Transformation Act ("CETA") eligible resources and up to 1,755 MW of summer and 1,573 MW of winter peak capacity resources. A few weeks later, PSE announced a 25-year power purchase agreement with Clearway Energy for a 315-MW wind farm under development in Montana – a result of the

[1] Catchpole, Dan, *PSE Issues RFP in Race to Decarbonize and Meet New Demand,* Clearing Up., July 5, 2024, https://www.newsdata.com/clearing_up/supply_and_demand/pse-issues-rfp-in-race-to-decarbonize-and-meet-new-demand/article_a8b8d85e-388e-11ef-b4c1-4baa0f4e0353.html.

2021 All-Source RFP.[2] In PSE's Planning Transition Work Plan, PSE discusses its plan to continue this procurement effort by issuing another distributed solar and storage RFP in 2025, a potential all-source RFP prior to 2027, and a targeted request for information for demand response resources in 2024 which may lead to a subsequent RFP. PSE also made additional commitments in its June 27, 2024, Supplemental Letter, including engagement and timeline for the development and filing of a new Public Engagement Plan. I believe the scope and scale of PSE's ongoing procurement efforts is unprecedented for the Company. PSE has also made considerable progress in advancing energy equity through its implementation of CETA. This progress is described in the testimony of Mariel Thuraisingham and Charlee Thompson. I agree that the Company has not only demonstrated reasonable progress, but continues to stand out among Washington utilities as a leader in aggressively pursue new clean resources to meet its CETA obligations.

III. THE CLIMATE COMMITMENT ACT OBLIGATES PSE TO REDUCE GAS SYSTEM EMISSIONS.

Q. What is the Climate Commitment Act?

A. Passed by the Washington legislature in 2021, the CCA elaborates a pathway to meet Washington's ambitious statewide emissions reduction goals.[3] The statewide cap decreases every three years, with the eventual target of net-zero carbon footprint and a 95% reduction from 1990 emissions levels by 2050.

[2] PSE, *Puget Sound Energy signs long-term contract for more wind energy*, July 23, 2024, https://www.pse.com/en/press-release/details/Puget-Sound-Energy-signs-long-term-contract-for-more-wind-energy.

[3] RCW 70A.65.

The CCA directs the Governor to establish an implementing governance structure to ensure accountability, coordinated climate resilience approaches, equity and inclusivity in the clean energy economy, clear policy directives, and financial mechanisms to achieve the CCA's goals.[4]

The CCA also directs the Department of Ecology (Ecology) to implement a greenhouse gas (GHG) emissions cap and invest program to reduce GHG emissions from covered entities pursuant to the statewide emissions goals. Entities that emit 25,000 or more metric tons of carbon dioxide equivalent are "covered entities" that are required to register to participate in the cap and invest program.[5] The CCA requires that Ecology determine an emissions baseline that establishes the covered entities' share of GHGs in proportion to the total GHG emissions of the state. Ecology must then adopt annual allowance budgets for covered entities for each four-year compliance period. Ecology must distribute these allowances through auctions.[6]

Q. Why did the legislature enact the Climate Commitment Act?

A. The legislature found that climate change is "an existential crisis" that posed "one of the greatest challenges facing our state and the world today."[7] In Washington, the effects of global climate change are already present: increased wildfire danger, increased drought, reduced snowpack, reduced water supplies, and a rising ocean. Those effects—while widespread—do not impact Washingtonians evenly. Often, they disproportionally affect communities that are already disadvantaged.

[4] RCW 70A.65.050.

[5] RCW 70A.080.

[6] RCW 70A.060.

[7] RCW 70A.65.005(1).

The legislature stated that meeting the state's GHG emissions limits would "require coordinated, comprehensive, and multisectoral implementation of policies, programs, and laws, as other enacted policies are insufficient to meet the limits."[8] The legislature found that by exercising leadership in addressing climate change, the economy and its actors would be positioned to benefit from national and international efforts to reduce GHGs,[9] and environmental justice impacts—both past environmental overburdening and future economic transition due to decarbonization—could be better addressed and mitigated.[10] For these reasons, the legislature enacted the CCA.

Q. Is PSE a covered entity under the CCA?

A. Yes, PSE is a covered entity. The CCA definition of "covered entities" includes natural gas utilities.

Q. How do the JEA recommendations in this case reflect the purpose and intent of the Climate Commitment Act for covered entities to reduce emissions?

A. As the CCA establishes, the primary goal of the Act is to achieve statewide emissions reduction goals. The cap and invest program that implements the GHG reduction targets is expressly intended to "ensure that covered entities reduce their emissions"[11]; that is, these emitters are considered "responsible" for meeting the GHG reduction targets.[12] The CCA also includes a price containment mechanism to ensure prices of allowances do not drop too low so

[8] RCW 701.65.005(2).

[9] RCW 70A.65.005(6).

[10] RCW 70A.65.005(7).

[11] RCW 70A.65.060.

[12] RCW 70A.65 § 7(2)(b); *see also* RCW 70A.65 § 8(2) (annual allowance budget is intended to limit emissions from covered entities).

as to ensure covered entities have the financial incentives to achieve their proportionate share of emissions reductions.[13] The JEA recommendations to shorten the depreciable life of gas system assets, expand PSE's targeted electrification program, reject the Alternative Fuels Readiness Program, and adopt a differential ROE for gas customer request and capacity expansion investments are designed to achieve meaningful progress toward aligning the Company's financial incentives, capital planning, and programs with achieving its proportionate share of emissions reductions, while mitigating rate impacts.

IV. A MANAGED TRANSITION OF PSE'S GAS SYSTEM IS IN THE PUBLIC INTEREST.

Q. What is the Washington Decarbonization Act for Large Combination Utilities (Chapter 351, Laws of 2024)?

A. The Washington Decarbonization Act for Large Combination Utilities (ESHB 1589) is a law that was enacted in 2024 which supports PSE in planning the decarbonization of its gas system and establishes the programs and regulatory tools that will enable a managed transition of the gas system as customers choose to electrify their homes and businesses.

Q. What does ESHB 1589 do, and how is it relevant to this general rate case filing?

A. The law directs the Commission to consider PSE's proposed electric and gas plans as an integrated whole, to inform decisions that support reliable, affordable and decarbonized energy at the lowest reasonable cost to customers. Additionally, the law provides a process for PSE to obtain regulatory approval of new clean energy projects (essential to replacing gas in its system) by filing a petition for a Certificate of Public Convenience and Necessity (CPCN). The

[13] RCW 70A.65 § 9(2); *see also* remarks of Sen. Cushing explaining that price containment mechanisms "ensure the price of allowances available for auction remains sufficient to incentivize reductions in greenhouse gas emissions." Public Hearing, January 19, 2021, Senate Environment, Energy, and Technology Committee, at 5:14.

purpose of this new process is to allow for more certainty for the company and customers about which new clean energy resources will be built during a new phase of building and procurement of resources to meet state clean energy goals. The law also allows for the accelerated depreciation of PSE's gas system, which ensures its gas assets are fully depreciated by 2050. The language gives the Commission ample discretion to adjust the depreciation schedules to address affordability and require a reduction in PSE's rate base. I believe that setting gas utilities on a path to fully depreciate gas infrastructure is a necessary step to fully transition to a decarbonized energy system. The law also allows for PSE to propose combining its gas and electric rate bases in the future. Importantly, the law also strengthens requirements for PSE's energy efficiency, demand response, and targeted electrification programs, including more stringent planning standards, and new incentives and rebates for low-income customers to transition from gas to electricity. While the Company's initial testimony in this case was filed before the law was enacted, many elements of the policy are reflected in PSE's initial filing. The Act is currently in effect, and should be considered in this MYRP.

Q. How do PSE's proposals in this case start to implement a managed transition of the gas system?

A. As PSE notes in its initial testimony, this transition is already happening with gas demand declining 7% and 3% for its residential and commercial customers in 2023, respectively. With this trend expected to continue in the coming years, now is the time to plan accordingly and develop the programs to support a managed transition. The transition from gas to electricity won't happen overnight, but it will happen. A managed transition is one that thoughtfully and proactively targets electrification investments to areas of the system where new gas system investments can be avoided, shortens the depreciable lives of gas system assets to promote

intergenerational equity and avoid stranded assets, and physically shrinks the gas system over time as electrification occurs. Decisions made by the Commission in general rate proceedings, including this case, will shape when and how a managed transition will unfold.

Q. What additional information have you reviewed that supports the need for a managed transition of PSE's gas system?

A. I have reviewed the October 2023 Energy Decarbonization Pathways Report filed by the Commission in Docket U-210553 on May 30, 2024.[14] I have also reviewed the May 2024 report from Synapse and Climate Solutions, "A Managed and Timely Transition Lowers Cost and Risk: An Analysis of Options for Washington's Gas Utilities"[15]. Both of these reports use scenario modeling to examine the effects of different decarbonization strategies for the gas system.

Q. Describe the UTC's Energy Decarbonization Pathways Report.

A. The Energy Decarbonization Pathways Study identifies and describes the various potential pathways for Washington's investor-owned electric and natural gas utilities to contribute to achieving the state's overall GHG emission reduction goals.

In April 2021, the Washington State Legislature passed Senate Bill 5092, section 143 (Chapter 334, Laws of 2021), making 2021-2023 fiscal biennium operating appropriations for the state and providing funding to the Commission for the Energy Decarbonization Pathways Examination ("the study"). According to that law, the study "must examine feasible and practical pathways for investor-owned electric and natural gas utilities to contribute their share to greenhouse gas emissions reductions as described in RCW 70A.45.020, and the impacts of

[14] Exh. LCM-3.

[15] Exh. LCM- 4.

energy decarbonization on residential and commercial customers and the electrical and natural gas utilities that serve them." The report identifies and describes pathways that achieve GHG emissions reductions from actions and measures related to the use of natural gas. The report does not recommend a particular pathway, but describes pros and cons of the pathways identified.

Q. What are the key findings from the UTC's Decarbonization Pathways Report that support the JEA recommendations in this case?

A. The UTC's Decarbonization Pathways Report includes several findings which support the JEA recommendations[16]:

- Electrification is an efficient, off-the-shelf approach to decarbonizing heating in most cases.
- Natural gas as an energy source is assumed to be phased out rapidly in all of the three decarbonization scenarios, mostly within the next decade. Due to recent state policy, particularly the Climate Commitment Act and the Clean Energy Transformation Act, the transformation is imminent, with wide- reaching implications for the business models, infrastructure, and customers of the natural gas utilities.
- Regulatory agencies and utilities need to plan for a decadal drawdown of natural gas consumption.
- Policy solutions are necessary to minimize and avoid stranded assets, including strategies such as preventing expansion, managed decommissioning, accelerated depreciation of assets, performance-based regulation.

[16] Exh. LCM-3 at pp. 139-141.

- Programming and funding will need to be targeted to energy burdened and equity-seeking groups that could be stranded on a legacy natural gas system, and left paying for all the costs of the system.

Q. Describe the Synapse and Climate Solutions Report.

A. The report uses scenario modelling to evaluate pathways for a Washington gas utility to meet the emissions reductions modeled in the Washington State Energy Strategy. It evaluates four different scenarios that achieve 95% emissions reduction by 2050, and compares various cost scenarios of starting a managed transition of the gas system in 2025, 2030, 2035, versus an unmanaged transition.

Q. What are the key findings from the Synapse and Climate Solutions Report that support the JEA recommendations in this case?

A. The analysis found that:

- a managed transition consisting of clustered electrification investment and accelerated depreciation starting in 2025 is the most effective at keeping costs affordable and reducing the risks of stranded assets for utilities, compared to scenarios that delay those actions or do not attempt them.
- An unmanaged transition presents significant risks to PSE and its customers:
  - As gas consumption falls, the revenue required to operate and maintain the gas system, as well as recover the capital invested in that system, will not fall unless the utility changes its physical and financial approach.
  - If revenue requirements fall less quickly than sales, the per-unit costs to deliver gas will rise and thereby lead to rate increases.

- Rising gas rates increase energy burden for customers who remain reliant on the gas system. Over time, these customers will likely be lower-income customer who may already be energy burdened, as wealthier customers voluntarily upgrade to electric appliances or depart the gas system altogether.
- With fewer customers to pay for the revenue requirement, individual household rates and bills will increase and energy burden will fall even more heavily on those without the capital or control to electrify. Managing and mitigating this risk to low-income and disadvantaged customers is imperative.
- Rising gas rates will make electrification more cost-effective for those customers who can afford to electrify.
- Quickly rising rates are more likely to trigger rapid and unmanageable departure from the gas system, exacerbating risks for both the remaining disadvantaged customers and shareholders.
- If rates rise to the point that they are driving customers to reduce consumption or depart the system, PSE may find that further rate increases do not actually increase revenue. At this point, the Company would face a real risk of stranded costs and associated losses to investors.

- Managing the transition of PSE's gas system is important to mitigate these risks to the Company and its customers.

Q. How do the JEA recommendations support a managed transition?

A. The JEA recommendations seek to balance the interests of PSE and its customers given this changing landscape and increasing risk. By supporting a shorter lifespan for gas system assets, the JEA recommendations reduce the risk that the costs of these assets will be stranded or fall

disproportionately on low-income and energy burdened customers. By reallocating some of the costs which the company had proposed for depreciation expense to an expanded targeted electrification program, the JEA recommendations ensure that the Company is offering programs to support customers choosing to electrify heating loads and will be able to scale these programs to meet customer needs as its gas load declines. This is essential for a managed transition. The JEAs also support or do not oppose the Company's proposals which improve the Company's financial outlook to support the capital outlay for clean electricity projects to meet increasing electricity demand, provided that the Commission adopts criteria for CWIP as described in the testimony of Will Gehrke. Finally, the JEAs support targeted use of performance incentive mechanisms to achieve targeted electrification and demand response goals, which will incent PSE to proactively manage the shifting demand on its electricity system.

V. PSE MUST CONTINUE TO PRIORITIZE DEMAND RESPONSE.

Q. What does PSE recommend concerning demand response in this proceeding?

A. According to the prefiled testimony of Gilbert Archuleta, PSE requests a finding that the AutoGrid and Oracle PPA were prudent, proposes to earn a return on both PPAs, and recommends continuing the demand response performance incentive mechanism (PIM), but modifying it to measure winter and summer MW reductions in PSE's resource adequacy need that are attributable to all customer demand response programs.

Q. Do you support the Company's proposal?

A. In part. I support a finding of prudence for both PPAs. However, I do not think the Commission should allow the Company to "double-dip" on incentives for the same resource. This simply adds additional costs to customers for actions that the utility likely would have

taken anyway as a result of the other incentive. In general, I prefer an outcome-based PIM over a shareholder incentive for simply signing a contract. For this reason, I support authorizing and extending the demand response PIM with modifications, but not authorizing the return on PPA for demand response resources.

Q. Why does PSE recommend modifying its PIM metrics?

A. Mr. Archuleta explains that demand response programs operate in two distinct seasons. The summer season (May-September) and the winter season (November- March), with April and October acting as shoulder months. Each season has a separate system peak, based on differing usage patterns. Customers are enrolled in summer and/or winter seasons, and it is more appropriate to measure available demand response peak capacity for the summer season and for the winter season.[17]

Q. Do you support continuing and modifying the demand response PIM?

A. Yes. However, I recommend different modifications that would reflect the demand response resource contribution to reducing PSE's resource adequacy need, and that the demand response PIM be modified further in this MYRP to reflect Washington state policy as recently amended by ESHB 1589, and to incent improved performance for demand response, consistent with the Commission's policy statement on performance-based regulation.

Q. What is PSE's currently approved 2025 demand response target?

A. 86 MW

Q. What is PSE's 2026 demand response target?

[17] *See* GA-1T 15, lines 7-15.

A. PSE has no demand response target for 2026.[18] PSE proposes setting a target of 149 MW by the end of the November 2026- 2027 (winter season) to be calculated in the same way that PSE calculates its peak load reduction for compliance with the DR target in PSE's CEIP. Mr. Archuleta states that this does not replace the requirement to adopt a DR target in the CEIP. However, the commission has recently waived the requirement for PSE to file a CEIP in 2025, which would establish the demand response target for this period. Therefore, we do believe that this target would, in effect, replace the CEIP target for 2026.

Q. What is the basis for PSE's proposal?

A. PSE based its proposal on the amount of demand response which it has already contracted for in the 2026-2027 winter season.

Q. What is your recommendation concerning PSE's proposed changes to the demand response PIM?

A. While I support extending the PIM for demand response, I recommend increasing the target to incentivize PSE to achieve demand response beyond the amount it has already contracted for. I acknowledge that the proposed target is a 73.25% increase over the current target, which represents a goal of improved performance in the next MYRP. However, I believe that this means that the current demand response PIM target is too low. The proposed PIM target of 149 MW represents the amount of demand response which PSE has already contracted for. The purpose of providing a performance incentive is not to reward the utility for actions it has already taken, but to incentivize future improved performance. First, I recommend that the

[18] The Commission has approved PSE's request to waive its requirement to file a 2025 Clean Energy Implementation Plan, which is where the 2026 demand response target would be approved.

metric for measuring PSE's demand response and flexible load performance be outcome-based, consistent with Principle #3 in the Commission's Interim Policy Statement Addressing Performance Measures and Goals, Targets, Performance Incentives, and Penalty Mechanisms in Docket U-210590. This principle specifies that the metric should track outputs and outcomes, not inputs. To this end, I recommend that the PIM be based on PSE's programs' contribution towards resource adequacy. While it is important for PSE to have procurement goals and secure contracts to manage peak load, this would be a more accurate measurement of the efficacy of a peak load management program. Instead of basing the PIM on seasonal MW of demand response achieved, I recommend basing the PIM on metrics 16 and 17 approved in the last general rate case:

- Metric 16: "Reductions in the Company's resource adequacy need that are attributable to C&I, Residential DLC, and behavioral based programs."
- Metric 17: "Reductions in the Company's resource adequacy need that are attributable to Residential DLC, and behavioral based programs."

Second, I recommend adopting a stretch goal for 2026 which is aligned with the Washington Decarbonization Act for Large Combination Utilities. In the absence of a currently enforceable 2026 demand response target, a stretch goal within the PIM would incentivize PSE to build the foundation for a robust program to support its 2027 ISP filing.

Q. What does the Washington Decarbonization Act for Large Combination Utilities require for energy efficiency and demand response?

A. The law requires PSE to demonstrate in its Integrated System Plan how the utility will achieve two percent of load annual with conservation and energy efficiency and annual demand

response and demand flexibility equal to or greater than 10 percent of winter and summer peak electric demand.

Q. Do PSE's current energy efficiency and demand response targets fulfill this requirement?

A. No.

Q. What is 10 percent of PSE's forecasted winter and summer peak electric demand?

A. The charts below represent 10 percent of PSE's forecasted winter and summer peak electric demand in MW[19]:

Winter:

	10% Share
2024-2025	473
2025-2026	475
2026-2027	482

Summer:

	10% Share
2025	408
2026	416
2027	422

Q. According to this forecast, what would be an appropriate stretch goal, using your logic?

A. An appropriate stretch goal for 2026-2027 would be 482 MW (winter) and 422 MW (summer).

Q. Do you have any other specific recommendations regarding the demand response PIM?

A. Not at this time, however I reserve the right to address this issue in cross-answering testimony.

[19] Exh. LCM-5.

Q. Why is it inappropriate to wait for the Commission to complete its rulemaking in Docket U-240281 or for PSE to file its 2027 Integrated System Plan (ISP) to adopt these recommendations?

A. The Commission rulemaking in Docket U-240281 will establish important requirements for PSE's 2027 Integrated System Plan. However, it is not in the public interest to wait for the rulemaking to be completed or for the ISP to be approved start implementing these recommendations. PSE's current gas investment strategy and programs are not aligned with state policy supporting gas system decarbonization, and are not sufficient to meet customer demand for efficient electric equipment while maintaining reliability and affordability through a managed transition. The proposals presented by the Company and modified by the JEAs in this case represent a reasonable first step toward a long-term managed transition consistent with state policy.

VI. CONCLUSION

Q. What are your recommendations to the Commission?

A. I recommend that the Commission adopt the recommendations by the JEA witnesses Cebulko, Gehrke, Thompson and Thuraisingham, and modify the DR PIM and adopt a stretch goal for demand response procurement as described in my testimony.

Q. Does this conclude your direct testimony?

A. Yes.