Exh. HEN-1T
Dockets UE-220066, UG-220067, UG-210918
Witness: Hanna E. Navarro

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**DOCKETS UE-220066, UG-220067, UG-210918** ***(Consolidated)***
In the Matter of the Petition of **PUGET SOUND ENERGY** **For an Order Authorizing Deferred Accounting Treatment for Puget Sound Energy's Share of Costs Associated with the Tacoma LNG Facility**	

TESTIMONY OF

Hanna E. Navarro

STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Power Cost Adjustment Mechanism
Equity in Capital Planning

July 28, 2022

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LIST OF EXHIBITS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Hanna Navarro, and my business address is 621 Woodland Square Loop SE, Lacey, Washington, 98503. My business mailing address is P.O. Box 47250, Olympia, Washington, 98504-7250. My business email address is hanna.navarro@utc.wa.gov.

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

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

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

A. I have been employed by the Commission since March of 2021.

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

A. I have an undergraduate degree in political science from California Polytechnic State University. I have a master's degree in Public Administration from the Evans School of Public Policy at the University of Washington. I have a graduate certificate in Public Utility Regulation and Economics from New Mexico State University. Prior to working for the Commission, I worked for the Port of Seattle's Office of Equity, Diversity, and Inclusion on a project to incorporate consideration of equity into

decision-making processes. I have also worked in financial regulation for the federal housing finance agency in Washington, DC.

Q. Have you testified previously before the Commission?

A. No.

II. SCOPE AND SUMMARY OF TESTIMONY

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

A. In part one of my testimony, I address Puget Sound Energy's (PSE or Company) proposed modifications to the Power Cost Adjustment Mechanism (PCA) as part of its multi-year rate plan (MYRP). In part two of my testimony, I discuss whether or not PSE's Power Cost Only Rate Case (PCORC) should continue. In part three of my testimony, I discuss PSE's progress towards achieving equitable outcomes through investment decisions.

Q. Please summarize your recommendations.

A. Staff recommends the Commission:

- Reject PSE's proposals to:
  - Annually update its PCA baseline via an administratively burdensome and unnecessary expansion of the PCA annual review process; and
  - Eliminate both the deferral of annual power cost imbalances and the PCA surcharge/refund trigger threshold in favor of an annual true-up.

- Approve Staff's alternate method to annually update the PCA baseline.
- Eliminate PSE's ability to file PCORCs.
- Order PSE to develop a baseline equity assessment.
- Order PSE to support its annual review filing in the MYRP with a demonstration of progress towards achievement of equitable outcomes in investment decisions.

Q. Please summarize your review of PSE's proposed changes to the PCA Mechanism.

A. My testimony will discuss the circumstances which have given rise to the accumulation of large PCA imbalances in the last three years, PSE's proposed changes to the PCA mechanism, and Staff's alternative solution.

Q. Please summarize your review regarding PSE's PCORC.

A. My testimony will discuss how the need for PCORCs is mitigated by annual updates to the PCA baseline and by the multi-year structure of this rate plan.

Q. Please summarize your review regarding equitable outcomes.

A. My testimony will discuss why PSE cannot demonstrate that the investments presented for recovery in this MYRP contribute to equitable outcomes, and PSE's inability to demonstrate a sufficient plan to remedy this deficiency.

Q. Have you prepared any exhibits in support of your testimony?

A. Yes. I prepared Exhibits HEN-2 through HEN-21.

- Exh. HEN-2 shows Docket UE-210402, Gomez Exh. DCG-1CT(R) (Dec. 13, 2021)
- Exh. HEN-3 shows Docket UE-200900, Kalich Exh. CGK-8, Energy and Environmental Economics, Inc. (E3), Avista Power Cost Modeling Review (June 2020)
- Exh. HEN-4 shows PSE's Response to UTC Staff Data Request No. 100
- Exh. HEN-5 shows PSE's Response to UTC Staff Data Request No. 110
- Exh. HEN-6 shows PSE's Response to UTC Staff Data Request 284
- Exh. HEN-7 shows PSE's Response to UTC Staff Data Request No. 74, Attachment G
- Exh. HEN-8 shows PSE's Response to UTC Staff Data Request 80
- Exh. HEN-9 shows PSE's Response to UTC Staff Data Request 157
- Exh. HEN-10 shows PSE's Response to UTC Staff Data Request 119
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- Exh. HEN-12 shows PSE's Response to UTC Staff Data Request 195
- Exh. HEN-13 shows PSE's Response to UTC Staff Data Request No. 111
- Exh. HEN-14 shows PSE's Response to UTC Staff Data Request No. 246, Attachment A
- Exh. HEN-15 shows PSE's response to UTC Staff Data Request No. 246, Attachment B
- Exh. HEN-16 shows excerpts from PSE's 2020 Electric Service Reliability Report

- Exh. HEN-17 is the Grid Modernization Lab Consortium Report for the UTC on Equity Considerations in Defining and Addressing Energy Security and Resiliency

- Exh. HEN-18 shows PSE's Response to UTC Staff Data Request No. 112

- Exh. HEN-19 shows PSE's Response to Public Counsel Data Request, No. 160

- Exh. HEN-20 shows PSE's Response to UTC Staff Data Request No. 288

- Exh. HEN-21 shows PSE's Response to UTC Staff Data Request No. 245

III. POWER COST ADJUSTMENT MECHANISM

A. Background

1. PCA Mechanism

Q. What is the Power Cost Adjustment mechanism?

A. The Power Cost Adjustment (PCA) mechanism[1] accounts for differences in actual power costs incurred by PSE relative to a forecasted net power cost baseline (baseline, or power cost baseline). The baseline is set through either a Power Cost Only Rate Case (PCORC) or a General Rate Case (GRC). The baseline establishes

[1] The PCA mechanism was originally created in a 2002 settlement to a GRC. *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-011570 & UG-011571, Twelfth Supplemental Order (June 20, 2022) (hereinafter 2002 PCA Settlement). In 2013, PSE entered a PCA Collaborative as an outcome of the Company's 2013 Power Cost Only Rate Case. That proceeding resulted in a settlement that produced modifications to the PCA mechanism that became effective January 1, 2017. In this settlement, PSE agreed to limit the PCA Mechanism to only variable power costs. This case also modified the size of the dead and sharing bands. *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-130617, Order 11 (August 7, 2015) (hereinafter 2015 PCORC Order).

both the level of power costs embedded in electric rates and the level of power costs from which the dead and sharing bands operate in the PCA mechanism.

Q. What are the dead and sharing bands?

A. The variance between actual costs and the costs included in the approved forecasted baseline first flow through the dead and sharing bands, and thereafter are booked into a deferral account. The dead band consists of the first $17 million of the variance (in both the positive and negative direction). In other words, any variance below $17 million is not reflected in the cumulative deferral balance. Rather, variances under $17 million in either direction is fully absorbed by PSE. Any variance (positive or negative) beyond $17 million up to $40 million, flows through the first sharing band where *under*-recovered costs are shared 50 percent to PSE and 50 percent to customers. *Over*-recovered costs are shared 35 percent to PSE and 65 percent to customers. The second sharing band includes all variance positive or negative over $40 million. *All* variance in this second and final band is shared 10 percent to PSE and 90 percent to customers.[2] After the variance flows through the dead and sharing bands, the amounts are booked into the PCA deferral account and reflected in the PCA cumulative deferral balance.

[2] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-130583, UE-130617 & UE-131099, Order 11, Attachment A to Settlement Stipulation, 5 (Mar. 27, 2015).

Q. Given the operation of the dead and sharing bands, when does a credit or surcharge to ratepayers occur in the PCA?

A. There is a $20 million threshold trigger. If the cumulative deferral balance exceeds $20 million in the positive direction (over-collection), then a credit will be issued to ratepayers. On the other hand, if the cumulative balance exceeds $20 million in the negative direction (under-recovery), then the Company may file requesting a surcharge be issued to ratepayers.[3]

The threshold works in the following way: Under PSE's proposal, if the Company under-recovers $9 million in year one, at the start of year two customers would pay a surcharge. If in year two the Company over-recovered $9 million, customers would receive a refund in addition to the expiration of the prior year's surcharge. With the $20 million trigger threshold in place, these imbalances remain in a deferral account. In other words, an over-recovery in year one can be offset by an under-recovery in year two thus eliminating the need to change rates twice in two years.

Whether a credit or surcharge should be issued is determined by the Commission during the annual PCA Mechanism Report filing. Balances under $20 million are not refunded or collected from customers.

[3] *Id.* at 2 ("The surcharging of deferrals can be triggered by the Company when the balance of the deferral account is approximately $20 million. The Company shall make a filing to refund deferrals when the balance in the deferral account is a credit of $20 million or more.").

Q. You just mentioned the PCA Mechanism Annual Report filing. Can you explain what this is?

A. Over the course of five months, Staff and other parties review the Company's annual PCA filing[4] to arrive at a prudency recommendation to the Commission on PSE's power cost actuals and resulting deferrals for the prior calendar year.[5] Given the operation of the dead and sharing bands just discussed, the Commission can determine if the cumulative balance exceeds the threshold for surcharge or credit. In both the event of a surcharge or credit, PSE, Staff, and other parties may offer recommendations regarding the amortization schedule to recover from or pass back to customers these amounts with an eye toward rate stability and avoiding rate shock.[6]

Q. Is the prudence of actual power cost incurred by PSE determined during the PCA Mechanism Annual Report?

A. Yes. The prudency of actual power costs incurred by PSE (not forecasted values) is determined annually during the PCA review. The PCA annual review allows the Commission the opportunity to review the prudence of actual power costs (from the

[4] PSE makes this annual filing on May 1. Unless the filing is contested or a continuance is granted, the Commission makes this determination on these costs before September 30 each year. *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-130617, Attachment A to Settlement Stipulation (March 27, 2015).

[5] The PCA annual reviews are Staff Investigations which are not litigated cases and therefore do not have a protective order governing discovery and are not set for hearing. The standard practice employed by Staff and parties is to issue informal data requests to the Company over a 90-day period with a final prudency recommendation to the Commission at the end of five months. If the PCA annual review is not contested, Commission approval occurs in an open meeting on the consent agenda.

[6] For instance, the Commission authorized PSE to recover the 2020 customer deferral balance over a 13-month period, thereby extending the period for the existing surcharge which resulted from the 2019 customer deferral balance. The Commission did this to avoid rate changes and maintain administrative burden. *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-210300, Order 01 (Sept. 30, 2021).

prior calendar year) after they have been incurred and can be compared to the forecasted values reflected in the baseline. Historically, the remedy for imprudently incurred actual power costs has been a disallowance of actual power costs.[7]

Q. Is there a recent case where the Commission ruled that the Company's power supply costs incurred during the PCA deferral year were imprudent?

A. Yes. Parties reviewed and contested outage replacement power costs incurred by PSE in its 2018 PCA Mechanism Annual Report. The Commission agreed with the positions of the parties (Staff and Public Council) and ordered a disallowance of actual power costs against PSE.[8]

Q. What are the goals of the PCA mechanism?

A. The goals of the PCA mechanism and its respective sharing bands are to: (1) equitably share risk between the shareholder and the ratepayer of power cost variability in the rate years; and (2) incentivize the utility to effectively manage or even reduce power costs.[9] For these objectives to be met, it is vital that the baseline (which the bands operate from) reflect the most-up-to-date information available to the Commission.[10] Thus, the proper function of the PCA mechanism (or any other power cost mechanism) requires an updated baseline representative of a normalized

[7] *See e.g., Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-190458, Final Order 06, ¶11-13 (May 29, 2020) (disallowing certain costs related to the 2018 Colstrip Outage, resulting in an adjustment to reduce Washington-allocated actual net power costs).
[8] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-190324, Order 05, ¶ 11 (May 29, 2020).
[9] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-011570 & UG-011571, Twelfth Supplemental Order, ¶ 22 (June 20, 2002).
[10] Navarro, Exh. HEN-2.

rate-year's power costs. Another goal of the PCA mechanism, as detailed in the Commission's Final Order in the 2002 Settlement, is to promote rate stability.[11]

Q. What conditions prompted the Commission to adopt the PCA mechanism?

A. As the Commission has stated, "…the PCA was developed in the wake of the 2001 Western energy crisis in which conditions in wholesale power markets were extremely volatile. This was also a time when the risks of unusual hydro and weather conditions were significantly affecting power costs. The PCA's design manages the power cost volatility that results from these conditions, which are beyond the Company's ability to control."[12]

Q. Why is a volatile energy market a problem?

A. Through the course of a year, PSE actively manages its power and gas long and short positions which includes programmatic hedging to minimize its exposure to fluctuations in both gas and power spot market prices. If, for example, a sudden heat wave or cold snap causes demand (and prices) for energy and gas to rise rapidly above PSE's planned level of generation and contracted energy, PSE must then buy highly priced power and gas on the spot market to meet customer load.

[11] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-011570 & UG-011571, Twelfth Supplemental Order, ¶ 22 (June 20, 2002).
[12] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-072300 & UG-072301, Order 13 (January 15, 2009).

Q. How does the PCA address issues associated with volatility?

A. Prior to the establishment of the PCA, PSE was fully responsible for power market risk. The Western Energy Crisis discussed above lead to significant under-recoveries and resulted in financial distress for PSE and rate instability for rate payers.[13]

Staff Witness Gomez explained in Docket UE-210402[14] that the Commission established power cost mechanisms for Avista, PacifiCorp (PAC), and PSE[15] specifically to deal with this type of volatility. The PCA mechanism addresses volatility by distributing the risk of power costs beyond the utilities control between shareholders and customers. The mechanism also provides an incentive for the Company to manage their power costs.

2. Power Cost Updates

[13] Navarro, Exh. HEN-2 at 23: 18: "This crisis adversely affected the financial conditions of Washington's regulated power and gas utilities largely due to the dramatic and rapid increases in market prices for gas and power which affected the Western United States in the early 2000s."

[14] Navarro, Exh. HEN-2 at 24: 2-8. Witness Gomez explained "The traditional rate setting process simply could not keep up with the increases to market prices which, in turn, resulted in both under-recovery of power cost expense on the part of the utility and rate instability for the ratepayer. As a solution to this problem, the Commission implemented power cost mechanisms for both Avista and PSE (and eventually PacifiCorp) as a long-term answer to address 6 the limits of traditional rate making to anticipate changes in power costs largely outside the utilities' control."

[15] The PCAM closely aligns with the ERM. *See Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Company, a Division of PacifiCorp*, Dockets UE-140762, UE-140617, UE-131384 & UE-140094, Joint Narrative in Support of Settlement Stipulation ¶ 37 (May 8, 2015) ("The stipulated PCAM aligns closely with Avista's ERM, although there are aspects that are similar to PSE's PCA.").

Q. Has the Commission approved power cost updates recently?

A. Yes. In both PacifiCorp's (UE-210402) and PSE's (UE-200980) last PCORC filings the Commission ordered a power cost update that occurred within the compliance stage of those proceedings.[16]

Q. What inputs in the PCA baseline model were updated in PSE's last PCORC?

A. Pursuant to the settlement agreement in UE-200980:

> The Settling Parties agree to an electric revenue increase of approximately $65.3 million, or 3.07 percent, which will be updated through a power cost update at the compliance filing to reflect the up-to-date natural gas prices as well as the most up-to-date electric and gas hedge positions . . .[17]

Q. Does PSE use market forwards as an input in its PCA forecast model?

A. Yes. PSE's PCA modeling approach uses forwards market prices for gas as an input in its model. However, unlike Avista and PacifiCorp, PSE arrives at the market price for power as an output of its model—as opposed to using electric forwards.

Q. Has the Commission discussed whether updated information in a power cost model, as opposed to older information, will result in a more accurate forecast of rate-year power costs?

A. Yes. In discussing the topic of power cost updates in PacifiCorp's last PCORC, the Commission stated:

[16] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-200980, Order 05 (June 1, 2021); *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co., a Division of PacifiCorp*, UE-210402, Order 06 (March 29, 2022) (hereinafter 2022 PacifiCorp PCORC Order).
[17] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-200980, Joint Narrative in Support of Settlement Stipulation and Agreement ¶ 11 (April 2, 2021).

> [W]e have routinely approved, or even required, power cost updates close to the rate effective date to produce more accurate power cost forecasts. As Staff witness Gomez explains, it is logical to expect the accuracy of forward price forecasts (such as the Official Forward Price Curve (OFPC)) improves as we approach the rate effective year. The Settlement's compliance stage update is consistent with this past practice.[18]

The Commission further questioned a party's recommendation to use older information in the power cost baseline model to forecast rate year power costs. [19]

Q. Has the topic of power cost updates been addressed in prior Commission-mandated collaboratives?

A. Yes. Exh. HEN-3 contains a report authored by Energy and Environmental Economics (E3). E3 was hired as part of a Commission-mandated power cost workshop involving the modeling practices of Avista. As part of its final report, E3 provided a series of recommendations that were informed by its survey of several regulated electric utility companies – including both PSE and PacifiCorp. E3 also discussed the cost tracking and sharing mechanisms employed by other regulatory commissions. One of E3's listed recommendations related to standardizing the practice of updating forward electric and natural gas inputs close to the rate effective

[18] 2022 PacifiCorp PCORC Order at ¶ 129. *See also Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-111048 & UG-111049, Order 08, ¶ 226 n.304 (May 7, 2012) ("[A]bsent a rigorous analysis the Commission will assume 'that more recent data predicts the near and perhaps even the intermediate term better than older data.'").

[19] 2022 PacifiCorp PCORC Order at ¶ 130 ("AWEC witness Mullins argues further that there is 'no reason to believe that an update performed at any period during the pendency of the case will be any more or less accurate' than the Company's initial filing. Staff witness Gomez explained, however, that he has never heard of a power cost expert or consultant who recommended the use of older information. We also question these recommendations given our regulatory experience and past practice. While there is always a degree of uncertainty in forecasts, the Commission has generally responded to market volatility by requiring utilities to update power cost models to account for changing conditions").

date—as done in "compliance runs." The block quote below contains E3's recommendation:

> Due to the reliance on market forwards, there may be value in **standardizing the practice of updating forward electricity and natural gas inputs close to the rate implementation date**, as is done in "compliance runs." Incorporating such a "data refresh" – after the rate case has already been concluded – would allow for costs to be more reflective of the current market information, which generally improves as the forward period approaches. (bolding in original).[20]

Q. Does any other state require a Washington investor-owned regulated utility to perform an annual power cost baseline update?

A. Yes. The Oregon Public Utility Commission (PUC) requires PacifiCorp to file a power cost update in the Transition Adjustment Mechanism (TAM). After the Oregon PUC issues a final order in the TAM, PacifiCorp is required to utilize the latest Official Forward Price Curve and update any new or existing contracts in forecasting its net power costs.[21]

Q. Has the Legislature required power cost updates to occur in certain MYRPs?

A. Yes. RCW 80.28.425 states:

> If the commission approves a multiyear rate plan with a duration of three or four years, then the electrical *company must update its power costs* as of the rate effective date of the third-rate year. The proceeding to update the electrical company's power costs is subject to the same standards that apply to other rate filings made under this title.[22]

[20] Navarro, Exh. HEN-3 at 54.
[21] 2022 PacifiCorp PCORC Order at ¶ 38.
[22] RCW 80.28.425 (emphasis added).

B. The Forecast Problem with The PCA Power Cost Baseline

Q. Please describe PSE's proposed changes to the PCA.

A. PSE proposes to modify the PCA mechanism by: (1) eliminating the PCA mechanism's refund/credit trigger of $20 million in favor of immediate refund/recovery of annual power cost imbalances; and (2) expanding the PCA annual review process to include the setting of the baseline for the upcoming PCA deferral year. The Company's two proposals are driven largely by the Company's desire to improve cash flow.[23] To support its proposal, PSE points to the PCA mechanism's significant under-recovery of power costs for the last three years (2019 to 2021), even though the PCA mechanism has been in operation for almost 20 years. PSE is also concerned that without changes, these under-recoveries will continue through the 2022 PCA deferral year and into the MYRP as well.[24]

Q. Why is PSE proposing to alter the PCA Mechanism?

A. As observed by PSE Witness Phelps, deferral imbalances stayed within the dead band during the first 17 years of the PCA's operation but, in the last three years, the baseline has significantly under-recovered actual power costs ($67 million in 2019, $76 million in 2020, and $68 million in 2021).[25] PSE points to "price and load

[23] Hazan, Exh. KKH-1T at 54:12-14 ("More frequent updates and more timely recovery of PSE's power costs increases cash flow predictability and therefore improves the financial stability of PSE.").
[24] On April 29, 2022, PSE filed its PCA annual review of power costs incurred in the 2021 deferral year. The customer share of 2021 PCA mechanism under-recoveries (before interest) is $36.7 million. PSE's May 13, 2022, compliance filing in UE-130617 for the first quarter of the 2022 deferral year shows a cumulative PCA imbalance that is contained within the Company's dead band.
[25] Phelps, Exh. JKP-1T at 37:3-4.

volatility and extreme weather and market events"[26] as the main cause of these under-recoveries. Company witness Phelps argues that the Commission's policy of mitigating rate impacts on customers by amortizing these large deferral balances over several years has contributed to a cash-flow problem for PSE. This in turn results in more borrowing on the part of the Company and ultimately higher costs to rate payers.

Q. In your examination of PSE's power cost variances for the last three years, do you reach the same conclusion as the Company that the root cause of power cost under-recoveries can be attributed to the design of the PCA mechanism?

A. No. PSE Witness Phelps cites "multiple factors including price and load volatility and extreme weather and market events." PSE witness Wetherbee's testimony in the Company's PCA annual review filing provides two principal reasons for the PCA mechanism's recent trend of under-recoveries: (1) the rate year and effective date the Company selected for its 2019 GRC and 2020 PCORC and the resulting stale resource, load, and market price assumptions baked into the PCA mechanism's baseline in those cases; and (2) regulatory normalization assumptions embedded in the methodology used to derive the PCA mechanism's baseline.[27] Neither of these reasons give rise to a need for upsetting the established risk sharing features currently embodied in the PCA mechanism's design.

[26] Phelps, Exh. JKP-1T at 11:6-8.
[27] *In the Matter of the Petition of Puget Sound Energy*, Docket UE-220308, Wetherbee, Exh. PKW-1CT(R) at 12: 4- 14:6 (April 29, 2022).

Q. Why has the baseline under-forecast actual costs over the last three years?

A. As Company witness Phelps accurately notes, recent under-recoveries have largely been driven by 1) load variances due to both weather and forecasting differences, 2) increased market prices for power and gas, and 3) incremental changes to PSE's portfolio unaccounted for in the baseline/rate setting process. The three drivers cited by Phelps can then be broken down further into two separate categories of causation – 1) extreme weather events, which are one-time occurrences and which the PCA mechanism baseline setting process does not account for, and 2) the timing and frequency of updates to the PCA baseline which have failed to keep up with rapid changes in energy markets and policies. [28]

Q. Is PSE's proposal to modify its continued under-recovery of power costs a good solution?

A. No. The root cause of PSE's under-recovery of its power costs have not been related to the operation of the mechanism itself. Instead, it reflects a perfect storm of events - an unprecedented rise in power and gas market prices coupled with multiple extraordinary weather and economic events like the COVID pandemic.

The PCA mechanism's sharing bands are designed to handle extra-ordinary variances in power costs which are primarily driven by weather, and, because weather impacts in a future rate year cannot be predicted, we rely on weather normalization adjustments for setting baseline power costs. The presence of large

[28] *In re Petition of Puget Sound Energy*, Docket UE-220308, Wetherbee, Exh. PKW-1CT(R) at 14:7-15:4 (Apr. 29, 2022).

PCA imbalances does not in itself give rise to a need to modify the PCA mechanism or change weather normalizing assumptions in PSE's power cost methodology.

Q. Does Staff believe that PSE's power cost under-recoveries are a problem?

A. Yes. As of December 31, 2021, the unamortized balance of PCA surcharges incurred in the 2019 and 2020 PCA deferral years stands at $38.4 million and is being recovered by PSE's Schedule 95.[29] This amount does not include the $36.7 million in surcharge deferral balance recorded for the 2021 PCA deferral year.[30] The continued accumulation of surcharge deferral balances for later recovery poses problems for both the rate payer and the Company: customers experience rate instability; and the Company's liquidity suffers which in turn drives up PSE's borrowing costs.

Q. Is Staff proposing an alternative solution to update the PCA mechanism baseline?

A. Yes. The Commission should incrementally expand the scope of the power cost update, while at the same time preserving how the PCA mechanism apportions risk between the rate payer and the Company.

Q. How is Staff's proposed solution a better option than the one proposed by PSE?

A. Staff's recommendation will effectively and efficiently manage power costs and reduce the risk of both over and under collection of power costs through the PCA

[29] *In re Petition of Puget Sound Energy*, Docket UE-220308, Free, Exh. SEF-1T at 8:11 (Apr. 29, 2022).
[30] *Id.* at 7:7.

mechanism's baseline. Staff's recommendation is also vastly less administratively burdensome than PSE's proposal.

Q. Do PSE's proposed changes to the PCA mechanism address how the baseline can anticipate and account for extreme weather events like last summer's Heat Dome?

A. No. PSE simply asks for immediate recovery of costs tied to extreme weather events. This violates the basic tenets of power cost mechanisms which includes the banking of year-to-year credit/surcharge deferral balances to offset future under and over recoveries. PSE's proposal is a recipe for rate instability at a time when its customers can least afford it.[31]

Q. Do PSE's proposed changes to the PCA mechanism address the timing and frequency of updates to the PCA baseline?

A. Yes, but PSE's proposal interjects an unnecessary and administratively burdensome process to update the PCA baseline. Such a task can be effectively accomplished more efficiently through an incremental expansion of the compliance update process. For the PCA to operate as intended (sharing risk, incentivizing PSE to manage power costs, and stabilizing rates for customers), the baseline forecast must be current. While price and price-impacting information cannot be perfectly predicted, updating PSE's power costs model will likely result in a more accurate forecast of rate year power costs. Phelps argues, and Staff concurs, that the baseline would be improved

[31] PSE's proposal is also at odds with storm related cost deferrals which are recovered through deferral and amortization over several years.

by more up to date price and price-impacting information.[32] Unlike PSE's proposals, Staff's recommendation can reduce the risk of continuous under-recovery of costs without undermining the intention and purpose of the PCA mechanism.

Q. How quickly does PSE recover PCA under-recoveries?

A. It depends. When power costs exceed the baseline (PSE under collects), the difference is tracked monthly, accruing interest over the 12-month PCA deferral period. Staff reviews the prudency of the power costs incurred in the previous deferral year in the Company's annual PCA filing. Depending on whether the $20 million surcharge threshold trigger has been met, the Commission uses its discretion to set an appropriate period of amortization with an eye toward balancing recovery for the Company with rate stability for customers. This means that under-collected funds in one year, can take several years for the Company to recover. And, if we experience several years of under recovery of power costs coupled with the impacts of under collection due to extraneous economic events like the COVID pandemic, the accumulation of large deferral balances can have a material impact on the financial performance of the utility. This is the problem of regulatory lag. Staff witness Ball discusses the role of regulatory lag in detail and explains how the new multi-year structure of regulation mitigates this lag significantly.[33]

[32] Phelps, JKP 1-T at 22 ("Even though the PCORC process is more streamlined 5 than the general rate case process, it does not provide for timely inclusion of all new resources and updates to existing resources. Annual baseline rate updates would improve the alignment of customer rates with resource costs. Recent PCA imbalances provide evidence that the current system is inadequate for aligning costs charged to customers with actual power costs.").
[33] Ball, JLB-1T at 5: 10-21.

Q. What is the outcome of a baseline that relies on outdated information and regulatory lag?

A. Large deferral balances. This is a problem for PSE if actual power costs are higher than projected because money in deferral is cash that cannot be spent – thus reducing the Company's cash flow. PSE contends that to meet the Clean Energy Transformation Act's (CETA) ambitious decarbonization goals, the Company will need new resources to rapidly come online which requires adequate cash flow.[34] PSE also argues that because deferrals mean that costs incurred today are paid in the future, costs incurred by current customers are shifted to future customers.[35] This is the basis for PSE's argument that the PCA process results in misaligned costs.

Q. How does PSE propose to solve this problem?

A. PSE has proposed a multipart solution to annually update the PCA baseline to make it more accurate, and an annual true-up process to recover or refund over or under-collected funds more quickly. PSE is, in Staff's view, motivated to make these changes by a desire to collect under-recovered funds more quickly.

Q. Does PSE propose to do away with the dead and sharing bands?

A. No. In a data response PSE confirmed that the Company is not seeking to do away with the sharing mechanism in this rate case. [36] The annual true-up process that the

[34] Phelps, JKP 1-T at 3: 4-17.
[35] Phelps, JKP 1-T at 28: 5-8.
[36] Navarro, Exh. HEN-4.

Company proposes, however, is a step towards dollar-for-dollar recovery, and Witness Bulkley discusses dollar-for-dollar recovery of power costs in testimony.

Q. PSE infers that 94.52 percent of utilities are allowed to pass through fuel costs and purchased power costs directly to customers, without dead and sharing bands. Do you agree with this inference?

A. No. PSE's inference is flawed by selection bias. To make this inference, PSE looked at a "proxy group" comprised of 66 operating companies.[37] These 66 operating companies represent the separate gas and electric operations of 12 utilities across multiple states. Of the utilities that PSE chose for its study, 94.52 percent do not have cost-sharing.[38] PSE is not relying upon an independent study to make this analysis. PSE conducted a self-serving study to support desired results.

Q. How did PSE select the proxy group?

A. Company witness Bulkley used the proxy group mentioned above to make comparisons regarding cost of equity in addition to comparing power cost mechanisms. With that in mind, the proxy group was selected with an eye towards a group of utilities that are publicly traded and comparable to PSE in "certain fundamental business and financial respects."[39] PSE witness Bulkley argues that the proxy group selected has a "set of operating and risk characteristics that are substantially comparable to PSE, and thus provide a reasonable basis to derive an

[37] Bulkley, Exh. AEB-1T at 72: 8-10.
[38] Bulkley, Exh. AEB-11.
[39] Bulkley, Exh. AEB-1T at 33: 4-17.

estimate of the appropriate ROE for PSE." Bulkley does not make a similar justification for the use of the proxy group for comparison of power cost sharing mechanism purposes. Company witness Bulkley discusses at length why the Companies selected are comparable to PSE for the purpose of estimating cost of equity but does not discuss any justification for how the proxy group is comparable for the purpose of analyzing power cost mechanisms.

Q. Does Staff have any evidence to rebut PSE's inference that 95 percent of utilities receive dollar-for-dollar recovery?

A. Yes. As discussed earlier, E3 conducted an industry survey to understand how other utilities handle power costs. Of The nine utilities surveyed in the study (including Avista, PSE, and PacifiCorp), only two did not employ power cost sharing mechanisms. Below is a chart created by Staff which shows whether or not the nine utilities surveyed have dollar-for-dollar recovery of power costs.

Figure 1.

Utilities Surveyed	**Dollar-for dollar power costs?**
Northwestern Energy (Montana)	No
Xcel Energy (general power cost modeling practices applicable across their different service territories)	No
Public Service Company of New Mexico	Yes
Nova Scotia Power	Yes
Idaho Power	No
PacifiCorp	No
PSE	No
Avista	No
Portland General Electric	No

The study found that "Regulatory approaches to net power cost tracking and adjustment vary significantly, both in terms of the utility power cost modeling approaches endorsed by state commissions and the structure of mechanisms for allocating and/or sharing cost variations. There is no single, 'best' approach." [40]

Q. Please explain the three components of PSE's proposal to change the PCA mechanism.

A. PSE's proposal consists of three components:

Annual updates to the baseline

PSE proposes a new variable baseline rate that would be effective January 1 of each year.

Annual surcharges or credits

PSE proposes an annual rate change to collect from or credit over or under-recovered funds that would become effective on October 1 of each year. These two new annual rate changes would be in addition to PSE's annual MYRP rate change. In combination with rate changes due to the decoupling mechanism, PSE's proposal would guarantee customers four annual rate changes.

Trigger threshold

PSE proposes to eliminate the $20 million trigger threshold. The trigger threshold of $20 million is an integral part of the PCA mechanism which maintains the objective of rate stability. For the first 18 years of the PCA's operation the trigger threshold

[40] Navarro, Exh. HEN-3 at 51.

was never met, and customers were never owed a credit nor required to pay a surcharge.[41] The trigger threshold has done its job to maintain rate stability.

If the Commission approves PSE's proposal and eliminates the trigger threshold, customers will always experience a rate change. If the annual update is approved and the trigger threshold remains in place, customers would still be guaranteed three rate changes a year and would still experience a fourth rate change if the deferral balance assigned to customers exceeds the $20 million trigger.

Q. Do you believe the Commission should factor in rate instability and administrative burden in making its determination on PSE's proposal?

A. Yes.

C. PSE's Proposed Alterations To The PCA Mechanism

Q. Does Staff support PSE's proposed changes to the PCA mechanism?

A. No. Staff strongly opposes PSE's proposal. PSE's proposal is almost a dollar-for-dollar recovery of under-recovered power costs. PSE has offered a knee jerk reaction to the recent accumulation of large surcharge deferral balances largely the result of unforeseen events and the unfortunate timing and frequency of PSE's rate cases. Staff wonders if such a proposal would be forthcoming by the Company if rate payers were faced with three years of over-recovered power costs.

[41] Piliaris, Exh. JKP-1T at 36:17-37:2.

Q. Please explain Staff's opposition to PSE's proposal.

A. PSE's proposal would cause rate instability for customers and impose a heavy administrative burden on the Commission and on affected persons.

Q. Please explain rate instability.

A. Rate instability means rates that are not consistent. In this instance, rate stability should be defined as any changes to Schedule 95[42] that result in an increase or decrease to electric utility rates.

Q. How will PSE's proposal lead to rate instability?

A. All three components of PSE's proposal - the elimination of the trigger threshold of $20 million, annual updates to the PCA baseline, and guaranteed annual surcharge or credits for over or under recovery of funds that differ from the baseline - will compound to guarantee rate instability.

Q. Does the Commission support rate stability?

A. Yes. The Commission has on multiple occasions made decisions in the interest of supporting rate stability. For instance, the Commission decided in September 2021 to spread recovery of the 2020 PCA imbalance over 13 months in part to avoid additional rate changes.[43]

[42] Schedule 95 is the "Power Cost Adjustment Clause" tariff through which PSE collects or returns the surcharge or refund due related to an imbalance in the Company's PCA mechanism.
[43] *Wash. Utils & Transp. Comm'n v. Puget Sound Energy*, Docket UE-210300, Order 01 (Sept. 30, 2021).

Q. Why should the Commission value stable rates?

A. It is in the public interest to provide customers a level of stability so they can manage their energy expenditures. PSE's proposal includes no consideration for customers who would be particularly vulnerable to ever-changing power costs (e.g., customers on a fixed income). Rate stability is helpful to customers because it affords them the opportunity to manage their usage across the summer and winter. The Commission should value stable, predictable, and understandable rates for customers when considering the Company's interest in accelerated recovery of power cost expenses.

Q. Does PSE's proposal undermine the original intent of the PCA mechanism?

A. Yes. One of the original goals of the PCA was to promote rate stability.[44]

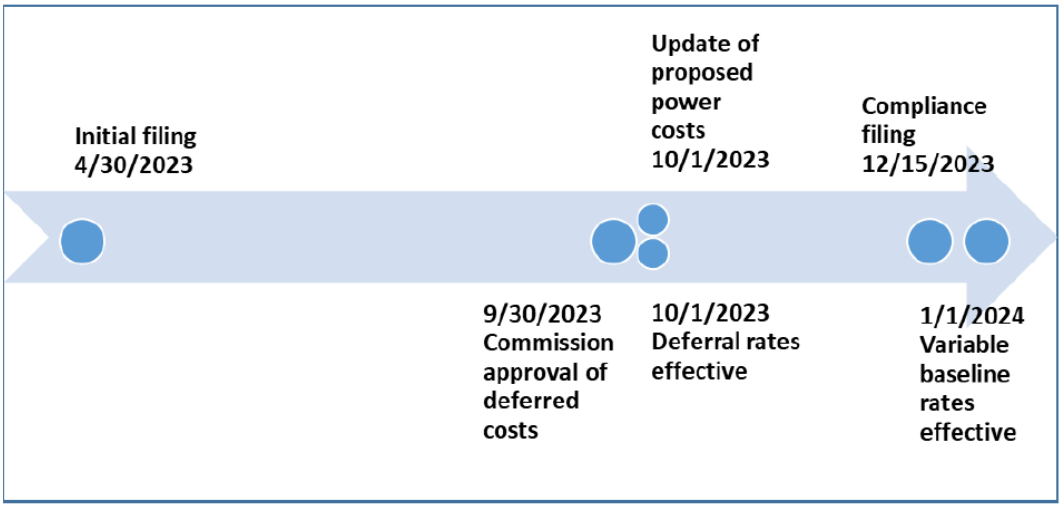
Q. Will PSE's proposal lead to better price signals for customers?

A. No. PSE's argument that the Company's proposal will improve price signals for customers and better align costs with cost causation is nullified by the amount of rate instability the Company's proposal would cause. PSE has not demonstrated that providing customers multiple rate changes per year will result in a more effective price signal. Staff contends that the motivation for this proposal is accelerated recovery of any under-recovered power cost expense from the prior deferral year.

[44] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-011570 & UG-011571, Twelfth Supplemental Order at ¶ 22 (June 20, 2002).

Q. How would PSE's proposal lead to administrative burden?

A. PSE's proposal effectively amounts to an annual PCORC which expressly defeats the main advantage associated with multi-year rate plans - to prevent the need for annual rate cases. It entails annually updating the PCA baseline and reviewing prudency for new resources through a lengthy 8-month process. This process, in addition to the reporting that is provided in the PCA annual review, would include a projection of 2024 power costs currently in the baseline rate, a new proposed baseline rate, an estimate of the deferral surcharge or credit effective October 1, and testimony supporting the prudence of new resources and preliminary information on new small-scale resources. Below is the timeline that PSE has proposed.[45]



On top of all this, PSE requests to ability to file PCORCs during the pendency of the multi-year rate plan. Currently, the PCORC is a 6-month litigated process through which the power cost baseline is updated, and new resources receive a prudency determination and are added into rates.

[45] Phelps, Exh. JKP-1T at 13: 6 - Figure 1. Proposed Procedural Schedule for Annual Updates.

PSE's proposals would consume the resources of not only the Commission, but also the Company and affected persons interested in participating in these matters. In all, the incremental benefit of PSE's proposal (accelerating cost recovery) is substantially outweighed by its resulting rate instability and administrative burden.

D. Staff's Recommendation

Q. What is Staff's recommendation regarding the PCA?

A. Staff recommends the Commission reject all elements of PSE's proposal and instead implement a process of updating the PCA baseline through the annual MYRP review process in a manner similar to a compliance filing. This will allow the baseline forecast to reflect the most up-to-date rate year information, and thus likely reduce deferrals and the need for immediate recovery, in an administratively efficient manner that preserves rate stability for customers.

Q. What is the benefit of updating the PCA baseline during the annual MYRP compliance period?

A. It will alleviate most of the burden resulting from PSE's proposal. Staff recommends annually updating costs and inputs to the power cost baseline in the MYRP review process rather than through an 8-month litigated process like PSE proposed. The prudency of these costs would then be determined in the annual PCA Mechanism Report Filing. As discussed earlier, the Commission has approved power cost updates in compliance periods.

Q. What costs does Staff propose to update in the PCA?

A. Staff proposes that the PCA baseline be updated annually during the multi-year rate plan. It is important to note that the update can either reduce or increase the power cost baseline. Part of PSE's proposal is to update the following prices and price-impacting information annually in the PCA baseline. Staff concurs that these specific costs and inputs should be updated annually, including:

- Costs associated with Mid-C hydro contracts -– This is a key input to the Power Cost Baseline Model for third-party contracts that are updated multiple times per year.
- Costs associated with upstream pipeline capacity – These are updates to the various pipeline and gas storage tariffs with FERC or the Canadian regulator, including a refresh of exchange rate.
- Outage schedules – This impacts the dispatch logic by changing the schedule for planned outages.
- BPA rates – BPA contract rates are updated biennially but the timing between proposed rates and final rates can create the need for more than one update.
- Load forecast –PSE updates its long-term load forecast annually and includes the most recent trends in load, customer counts, and economic and demographic data.
- Input assumptions used in dispatch logic – PSE updates the variable operation and maintenance ("O&M") costs quarterly which is an important input assumption to the dispatch logic.

- Hedges and physical supply contracts – Hedges and physical supply contracts are important adjustments to load and available generation in the dispatch logic.
- Natural gas prices - Forward natural gas prices are a key input to the power cost model and are used to forecast some out of model power costs. Currently, this includes three-month average forward natural gas prices using the same cut-off date used for hedges and physical supply contracts.
- Changes to terms of current resources – Known and measurable changes to the terms or prices for contracts can have important impacts on the dispatch logic of the model.
- Limited new and updated resources – Any new resource, regardless of whether it is owned by PSE or governed by contract, will have a variable rate ($/MWh) associated with it. Generally, these new resources are small in terms of rate year power cost and noncontroversial.

Q. Does adding PSE's proposed costs and inputs affect the prudency process in the PCA annual review?

A. No. Adding the above costs would expand the scope of this review, but it would not meaningfully change the process. The prudency of the costs and inputs above would be determined at the PCA annual review. This review is an appropriate time to determine the prudency of these costs and inputs - once the actual costs from the prior rate year are known and can be compared to the forecasted values established

in the update process. The review provides a five-month opportunity for Staff and interested persons to determine the prudency of power costs.

Q. Why should the Commission approve Staff's proposal to update the baseline through this annual process?

A. Staff's proposal is the best way to achieve everyone's goals: fulfilling PSE's need to reduce deferral balances to maintain appropriate cash flow, promoting rate stability, and minimizing administrative burden.

Q. Why is Staff's proposal good policy?

To meet the PCA's goals of mitigating risk and incentivizing the company to manage power costs, it is vital that the baseline (which the bands operate from) reflect the most up-to-date information. This provides a better picture of current conditions.[46] Further, Staff's proposal does not create a significant administrative burden.

Q. Why should the Commission reject the other elements of PSE's proposal?

A. Staff's annual process of updating the PCA baseline eliminates the need for the other two elements of PSE's proposal – annual surcharge and credits to deal with PCA deferrals, and elimination of the trigger threshold. These two elements of PSE's proposal would contribute to rate instability and create additional administrative burden.

[46] Navarro, Exh. HEN-2.

IV. POWER COST ONLY RATE CASE

Q. What is a Power Cost Only Rate Case?

A. When the PCA mechanism was first created in 2002, it was anticipated that in addition to the annual review of power costs and deferral balances, there would be a periodic proceeding specific to power costs that would adjust the PCA baseline included in customer's rates. This proceeding is the Power Cost Only Rate Case, or "PCORC." The Company could also initiate a PCORC to add the incremental costs of new resources or increased costs of existing resources. In either case, the Company would file a PCORC with an expectation that it would be closely followed by the filing of a GRC to match and true up all costs. PCORCs, as with GRCs, require the Company to fully provide evidentiary support for its rate proposals.[47]

Q. What is the goal of a PCORC?

A. A PCORC provides a means for the Company to provide new resources in rates.[48] The other goal of a PCORC is to set the PCA's baseline as close as possible to the Company's forecasted power cost during the rate year.[49] The PCA baseline

[47] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy Inc*., Dockets UE-011570 & UG-011571, Twelfth Supplemental Order at ¶¶ 25-30.

[48] *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-210402, Order 06, ¶ 107 (Mar. 29, 2022) ("A PCORC may also provide an expeditious means for the Company to include new resources in rates. The PCORC was generally meant to facilitate change in the Company's power resources by providing an incentive for it to rely less on short-term market purchases and to develop a utility-type generation asset portfolio, promoting more stable power costs in the future.") (internal quotation marks omitted).

[49] *Id.* at ¶ 106 ("The goal of a PCORC proceeding is to set the Company's power cost baseline as close as possible to the forecasted power costs during the rate year, based on the most up-to-date information. The power cost baseline "should be set as closely as possible to costs that are reasonably expected to be actually incurred during short and intermediate periods following the conclusion of such proceedings.") (internal quotation marks omitted).

establishes both the level of power costs embedded in electric rates and the level of power costs from which the dead and sharing bands operate in the PCA mechanism.

Q. Within this rate case did PSE raise the issue of whether the PCORC should continue?

A. Yes. PSE agreed to raise the issue of continuing the PCORC mechanism as part of a recent settlement.[50] The Commission approved that settlement, and in doing so it cited "significant changes in the statutory and regulatory landscape" whereby a rate case would be an "appropriate time to consider whether the PCORC mechanism should continue."[51]

Q. Why was the PCORC established?

A. The PCORC was established to work in tandem with the PCA. The PCORC mitigates regulatory lag for the Company by allowing rates for new resources to go into effect and by updating variable power costs close to the rate effective date. Staff witness Ball discusses how MYRP's, like the one the Commission is considering in this rate case, significantly reduce regulatory lag.[52] As stated by Commission Staff in PacifiCorp's recent PCORC, for a power cost mechanism to properly function it requires the setting of a baseline representing normalized hydro conditions and the

[50] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-200980, Order 05, ¶ 11 (June 1, 2021) ([T]he Settling Parties agree . . . that PSE raise the issue of whether the PCORC mechanism should continue in its next general rate case. . . .").
[51] *Id*.
[52] Ball, Exh JLB-1T at 5: 10-21.

company's most recent estimate of costs it expects to face for the rate year in question.[53]

Q. How do the PCA and the PCORC work together?

A. The PCA tracks variable power costs relative to the power cost baseline set in the PCORC. As such, the PCORC's update of the power cost baseline (like a GRC) helps ensure the proper operation of the dead and sharing bands (equal allocation of risk) and helps keep deferral balances within reasonable bounds, making the PCA better suited to its purpose. The PCA addresses unexpected and acute volatility in power costs while generally avoiding the trigger of surcharges or bill credits. Power costs that differ from the baseline are tracked and collected or refunded according to the PCA's designated dead and sharing bands – the prudency for which are analyzed during the annual review of the Company's PCA Mechanism Report.[54]

Q. How frequently does PSE file a PCORC?

A. PCORC's are filed at the Company's discretion.[55] The Company may file a PCORC to reset the power cost baseline when the costs included in the baseline change – for example, when the Company's portfolio changes, or when contracts or market prices change.[56]

[53] Navarro, Exh. HEN-2 at 25: 3-5.
[54] *Id.* ("This may be distinguished from the annual Power Cost Adjustment mechanism (PCAM) filing, which addresses extreme, short-term imbalances between power cost recoveries and actual power costs, providing a means to keep the power cost rate up to date. The two proceedings operate in conjunction to provide for the recovery of power costs.").
[55] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-011570 & UG-011571, Twelfth Supplemental Order at ¶ 26.
[56] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-072300 & UG-072301, Order 13 at ¶ 11 (January 15, 2009).

Q. How long is a PCORC?

A. The contemplated period for completing a PCORC is six months.[57]

Q. Should the PCORC be maintained?

A. No. Staff recommends the PCORC be eliminated. If the Commission adopts Staff's recommendation to update the PCA baseline, all of PSE's variable power costs would be updated through this annual power cost update. There are two ways that PSE can deal with new fixed costs – the first would be to include these capital costs in the rate plan that the Commission is currently considering. The second would be to defer these costs. All of PSE's new fixed costs must comply with CETA which included a provision explicitly allowing these costs to be deferred. New fixed costs should thus be dealt with through deferrals. PSE should not have any power costs or new resources that are outside of these parameters. Allowing PSE to file PCORCs increases administrative burden and creates duplicative processes.

If the Commission decides to keep the PCORC rather than eliminate it, then Staff recommends the Commission order PSE not to file a PCORC during the proposed MYRP.

Q. Would your recommendation change if the Commission declines to change the PCA mechanism in this filing?

A. Yes. If the Commission rejects both Staff's proposal and the Company's proposal for an annual update to the PCA baseline, the PCORC should be maintained.

[57] *Id.* at ¶ 44.

V. EQUITABLE OUTCOMES

Q. Please discuss the purpose of this section of your testimony.

A. I assess whether and how the investments presented for recovery in its MYRP do or do not contribute to more equitable outcomes.[58] While Staff witness Brewer evaluates if the Company is planning for equitable outcomes in three of its distinct capital planning processes, I examine the Company's specific plans, or lack thereof, for achieving more equitable outcomes. As described by Staff witness Reynolds, equity is a central component of the public interest; it is also a factor for determining whether a MYRP is in the public interest.[59] Without sufficient demonstration by PSE that the Company's investment decisions contribute to equitable outcomes, the Commission cannot be sure these investments are in the public interest.

A. Background on Equitable Outcomes

Q. Did PSE show that its MYRP advances equitable outcomes?

A. No. PSE did not provide enough evidence showing that it will advance equitable outcomes in its MYRP, nor did PSE show the likely impact the proposed investments will have on equitable outcomes. Further, PSE does not have an actionable plan to remedy this deficiency.

[58] As explained by Staff witness Brewer, when Staff refers to "equitable outcomes," Staff is referring to the literature backed understanding of distributional equity (Brewer, MAB 1T at 8:11-14).
[59] Reynolds, Exh. DJR-1T at 12: 6-11.

Q. What is Staff's recommendation?

A. Staff recommends that the Commission require PSE to develop a baseline equity assessment and support its annual update filing under the MYRP with a demonstration of progress towards achieving equitable outcomes. The Commission should require that this baseline equity assessment be informed by affected persons input and prior equity work and PSE should demonstrate that these metrics are valuable to Named Communities.[60] To support its annual update, the Commission should require PSE to identify the metrics and objectives used when making investments and demonstrate how the investments are performing in relation to their baseline when filing its 2024 MYRP review filing. The Commission should also require PSE to demonstrate how its actions and investments have made an impact on the metrics tracked.

Q. Why does Staff focus on metrics and measurement?

A. Metrics and measurement are integral components of assessing distributional equity. As Staff witness Reynolds has explained,[61] distributional equity is a pillar of overall equity in addition to procedural equity and structural equity.[62] Consistent metrics are needed to understand, assess, and improve on distributional equity.

[60] "Named Communities" is an umbrella term that includes Highly Impacted Communities and Vulnerable Populations as those terms are defined in RCW 19.405.020 (23) and (40). Vulnerable populations are designated in an approved CEIP pursuant to WAC 480-100-640 and 480-100-655.
[61] Reynolds, Exh. DJR-1T at 9: 1-5.
[62] Witness Reynolds Testimony Figure 1 defines structural, procedural, and distributional equity. These definitions come from *Methods, Tools and Resources: A Handbook for Quantifying Distributed Energy Resource Impacts for Benefit-Cost Analysis*, p. 183, Figure 40 (March 2022).

Q. What are the necessary elements in considering equity?

A. The Company must have data supporting its decisions. To render a fair judgement, a utility must identify any gaps in the data reported that would impact its decisions about fair, just, and reasonable rates. Most critically, in a MYRP filing, the Commission needs to consider how the benefits of the utility's investments affect Named Communities along with other ratepayers. In this MYRP, baseline data about the PSE's service territory is the necessary starting point for a consideration of distributional equity.

Q. Why should PSE measure distributional equity?

A. PSE must measure distributional equity to be able to make informed investment decisions that advance equitable outcomes. Projecting the impact of investments and evaluating outcomes after the fact are central components of PSE's planning process.[63] If PSE does not measure distributional equity, the Company cannot make informed investment decisions to advance equitable outcomes, nor will it know if the equitable outcomes were achieved.

Q. How does PSE use metrics and measurements currently?

A. As Staff witness Brewer has explained, PSE's capital planning processes is a complex multi-step process. PSE's investment decision optimization tool (iDOT)[64] is

[63] Koch, Exh. CAK-1T at 12:3 -13:6.

[64] As explained in Staff witness Brewer's testimony (Brewer, MAB 1-T at 13: 8), iDOT currently has 13 benefits. PSE witness C. Koch's testimony shows the iDOT hierarchy on page 23. Exh. MAB-2 is PSE's response to UTC Staff Data Request No. 73 and includes a detailed description of what the benefits are and how they are calculated. Staff Exh. MAB-2 also describes how benefit weights are assigned, and how the final Benefit to Cost ratio ("B/C ratio") is determined.

a key measurement tool in the Delivery System Planning (DSP) step of the capital planning process. Once a need is identified, PSE compares the forecasted and realized benefits of potential projects that address the needs in iDOT. Notably, the tool does not have the capacity to value benefits differently to different customers, nor can the tool identify whether and how a project did or did not contribute to distributional equity.

After the close-out of a project in a practice referred to as back-casting, iDOT allows PSE to optimize its portfolio for certain goals, something that PSE witness Catherine Koch indicated is the goal of the DSP process.[65]

Q. Please explain PSE's back-casting process.

A. After the implementation of a project, PSE performs a back-casting process through which the Company conducts "improvement verification analysis to determine whether the project provided the projected benefit." Company witness C. Koch refers to this as a "critical part of the planning process."[66] Investments are typically reviewed three or more years after implementation. For each project, where data is available, PSE compares actual performance is compared to forecasted performance from the project scope. PSE can use the improvement verification analysis information to adjust predicted benefits for future projects and to help identify potential issues with benefit assumptions, project implementations, system operation, or data accuracy.

[65] Koch, Exh. CAK-1Tr at 21: 7-18.
[66] Koch, Exh. CAK-1Tr at 27: 12-16.

B. PSE's Plan to Address Distributional Equity

Q. Does PSE's back-casting process consider equity?

A. No. As stated above, back-casting measures whether PSE has realized a selection of benefits that were projected at the onset of a project. Since iDOT does not have a method for measuring equity, the back-casting process cannot measure equity. Below is PSE's response when asked how the back-casting process assesses whether benefits are realized differently by different communities including highly impacted communities or vulnerable populations:

> As PSE integrates the consideration of equity and named communities into the planning process, and the inclusion of benefits relative to highly impacted communities and vulnerable populations as described in PSE's Response to WUTC Staff Data Request No. 074 and 080, PSE will be able to measure the effectiveness of those project benefits. That said, while the unique benefits have yet to be defined, highly impacted communities and vulnerable populations may still benefit from projects that improve or modernize circuits that serve named communities.[67]

Q. Did PSE demonstrate that its proposed MYRP will advance equitable outcomes?

A. No. PSE did not provide evidence that its proposed MYRP will result in more equitable outcomes.[68] PSE cannot demonstrate this because the Company has not projected the impact of its proposed investments upon the distribution of current benefits and burdens across its service territory.

[67] Navarro, Exh. HEN-5 at 2.
[68] Navarro, Exh. HEN-6.

Q. Does the Company address this deficiency in measuring equitable outcomes?

A. No. PSE plans to address this deficiency in future proceedings. While the Company provided a detailed list of testimony and data request responses in which equity is mentioned,[69] with references to the Company's Clean Energy Implementation Plan (CEIP) an equity assessment conducted in the Company's Integrated Resource Plan (IRP), and internal equity efforts, this list does not represent an actionable plan to achieve equitable outcomes. PSE's most frequent responses to UTC Staff Data Requests about equitable outcomes was that the Company plans to replace iDOT with a program that will be able to value equity. This plan, however, was only briefly mentioned in testimony. For example, PSE witness C. Koch stated, "PSE is currently evaluating its benefits weighting to integrate values such as equity, named populations, and carbon impacts."[70] Additional data request responses explaining this iDOT replacement were similarly vague.

Q. Please provide more information about this proposed replacement for iDOT.

A. While the Corporate Spending Authorization (CSA) for this project shows an in-service date of August 31, 2022,[71] and describes the project as "low-impact" for process and training requirements and the level of complexity as "straightforward and well-understood," PSE does not appear to be on track to meet this milestone. In response to UTC Data Request No. 80, inquiring about what benefits PSE plans to include in the iDOT replacement, PSE responded:

[69] Navarro, Exh. HEN-6.
[70] Koch, Exh. CAK-1Tr at 23:15–24: 2.
[71] Navarro, Exh. HEN-7.

> PSE is in the process of developing the requirements for a replacement of the current investment decision optimization tool ("iDOT") that will incorporate the types of benefits that address current values such as equity, named communities, carbon emissions, non-traditional solutions, resiliency, support for jurisdictional climate goals, and broader stakeholder feedback integration, etc. It will also address risks such as extreme heat and wildfire.[72]

The steps that PSE explained the Company needs to take to complete this project indicate the Company is not approaching project close-out:

> 1) gain an understanding of the benefit values that should be considered;
> 2) develop and implement a tool that can incorporate these benefit values;
> 3) define the stakeholder processes which inform the model parameters and help validate the expected tool results; and
> 4) define processes for collection, analysis, and consistent input.[73]

Another element of PSE's responses to questions about the Company's plan to address distributional equity was a reliance on work being conducted in the CEIP. Although not mentioned in direct testimony, PSE responded to Staff data requests that CEIP equity work will inform the Company's iDOT update.[74] For example, a slide deck presented to Staff explained, "Equity will be defined by burdens/disparities and will lean on ongoing CEIP work with the Equity Advisory Groups (EAG) Equity Assessment incorporating stakeholder and named community feedback."[75] PSE also explained in a data response that "….information and

[72] Navarro, Exh. HEN-8.
[73] Navarro, Exh. HEN-9 at 1.
[74] Navarro, Exh. HEN-10 shows PSE's Response to Staff Data Request 119 "It is expected that PSE's process and definition of benefits to highly impacted communities and vulnerable populations will mature through the CEIP process and through PSE's delivery system planning processes. That said, Named Communities may benefit in the traditional definition from projects that improve circuits today."
[75] Navarro, Exh. HEN-11 at 14.

feedback from the current Equity Advisory Group ("EAG") has been shared through meetings regarding reliability and equity."[76]

Q. When will PSE complete its equity assessment?

A. PSE plans to complete its equity assessment in the CEIP by the end of 2023.[77]

Q. When will PSE be able to evaluate the impact of its investments on distributional equity?

A. PSE response to Staff Data Request 194, attachment A[78] presented to Staff in April of 2022, shows PSE's draft plan for "Enhancing Delivery System Planning Process with new benefits reflecting equity and closing the gap on disparities" on a slide deck. The slide shows a new tool (iDOT replacement) in place by the middle of 2022, baseline equity metrics from PSE's CEIP equity assessment informing the tool in 2023, and back-casting occurring after 2025. This means that PSE would not be able to evaluate an investment decisions impact on distributional equity until after 2025. As discussed earlier, PSE does not appear to be on track to have a new tool in place in 2022, the CEIP equity assessment does not pertain to gas operations, and the back-casting process typically occurs three or more years after a project is in the implementation or close-out phase.[79]

[76] Navarro, Exh. HEN-9 at 1.
[77] Navarro, Exh. HEN-12 "by the end of 2023 PSE will "have completed measurement of disparities and continue working on methodology for scoring and weighting customer benefit indicators for the next CEIP and provide an update in the 2023 biennial CEIP update."
[78] Navarro, Exh. HEN-11 at 24.
[79] Koch, CAK 1-Tr at 27: 9-10

Q. Do the above plans provide evidence that the Company is on track to measure equitable outcomes?

A. No. While updating iDOT and using lessons learned from the CEIP are appropriate steps for the Company to take to advance equitable outcomes, PSE's plans to complete these projects are only partially formed. These projects will not, on their own, allow PSE to assess distributional equity associated with the impact of Company investments.

PSE's plan to use experiences from the CEIP appear to have occurred to PSE after discussion with Staff. Staff did not find evidence of detailed plans to complete this update.[80] Further, the equity assessment being developed in the CEIP as required by WAC 480-100-640(6)(b)(i)[81] is related exclusively to clean electricity resource decisions. It does not encompass PSE's natural gas operations. The CBIs developed in the CEIP are intended to help the Company make decisions for its portfolio of clean resources. Relying primarily on CEIP work to inform companywide operations is insufficient.

Q. Does PSE have an actionable plan to improve equitable outcomes?

A. No. PSE has a plan to develop a plan in the future. The Company argues that: equity considerations are only mandated in the context of the transition to clean energy,

[80] The equity assessment only appears in testimony in the filed CEIP (Jacobs, Exh. JJJ-3).
[81] WAC 480-100-640(6)(b)(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").

under RCW 19.405[82]; the Company has not had enough time to develop a plan to address distributional equity[83]; and internal DEI work serves as evidence that the Company will address distributional equity.[84] PSE made these claims repeatedly.[85]

While on one hand PSE argued that equity considerations are exclusive to RCW 19.405, PSE also used CEIP requirements as evidence that the Company is working to ensure equity in all its operations. These arguments are incongruous and suggest that the Company has not thought about equity outside of the context of the CEIP. But those thoughts have, as described above, produced no actionable plan to address distributional equity.

While PSE did not explicitly state that it has not had enough time to develop a plan to address distributional equity, the Company repeatedly cited the date of the law's passage in data responses. Staff believes PSE has had time, over three years at this point,[86] to develop a more robust plan to address distributional equity than what the Company currently has in place.

Finally, PSE presented the Company's internal equity work, as detailed by the Company's Diversity, Equity, and Inclusion (DEI) Playbook, to demonstrate

[82] Navarro, Exh HEN-7 ("Puget Sound Energy ("PSE") objects to WUTC Staff Data Request No. 080 as vague and ambiguous with respect to the reference to "the benefits of equity and named populations". PSE further objects to the interpretation of RCW 19.405.040(8) that appears to underlie the data request, which PSE views as overly broad and inconsistent with the language and intent of the statute. To the extent the data request seek to impose or imply requirements on PSE pursuant to RCW 19.405.040(8) that go beyond the scope of Chapter 19.405 RCW, PSE objects.").
[83] Navarro, Exh. HEN-7 ("Chapter 19.405 RCW, which was passed less than three years ago, mandates a transition to 100 percent clean electricity that is to take place over a quarter-century, with interim requirements along the way. Rules to implement the statutory mandates were adopted only recently.").
[84] Navarro, Exh. HEN-7 ("PSE developed and adopted a Diversity, Equity & Inclusion Playbook (referred to as the "Playbook") to present the vision for diversity, equity and inclusion ("DEI") at PSE, including PSE's roadmap, focus areas, leadership's role and how PSE plans to advance its current efforts. DEI is a broader effort of PSE; it is not specific to any statutory mandate but reflects PSE's corporate commitment to equity.").
[85] Navarro, Exh. HEN-8; Navarro, Exh. HEN-10; Navarro, Exh. HEN-13.
[86] *See generally* LAWS OF 2019, ch. 288.

equity in this rate case. While Staff appreciates the Company's internal effort to promote DEI, this playbook exclusively pertains to internal operations and does not demonstrate PSE's progress toward distributional equity.

C. Isolated Equity Analysis

Q. Did PSE take any steps to evaluate equity?

A. Yes. PSE provided an analysis that shows three service quality indicators (SQI) are better for Named Communities in comparison to the general customer base. PSE also provided a spreadsheet demonstrating that some grid modernization projects are occurring on circuits which in part serve Named Communities.

Q. Please describe the SQI analysis.

A. Annually PSE reports 11 SQI scores to the UTC in the Company's Electric Service Reliability Report.[87] The Company provided metrics for electric safety response time and System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) for Named Communities relative to the general customer base. These are, in order, SQI's 3, 4, and 11. PSE proposed to use SAIDI and SAIFI as performance measures for "equity" in this rate plan and proposed to also use SAIDI and SAIFI for "resilience" in the Company's CEIP. The SAIDI and SAIFI scores appear in Chapter Three of the Company's CEIP which is

[87] Navarro, Exh. HEN-16.

filed in PSE Exhibit JJJ-3.[88] The emergency response time metric does not appear in any report, but in a data response PSE explained that response time influences SAIDI and SAIFI and for this reason the Company does not believe it should be a standalone metric.[89] Below is the table from Chapter 3 of the CEIP.

Table 3-19: Decrease Frequency and Duration of Outages, Baseline Data for 2020

Metric	2020 Average customer count	2020 SQI 3 — SAIDI (minutes)	2020 SQI 4 — SAIFI (interruptions)
PSE — all customers	1,180,611	165.16	1.24
Highly Impacted Communities	454,434	144.74	0.98
Vulnerable Populations	382,824	112.99	0.82

Q. Is the analysis provided by PSE flawed?

A. Yes. PSE's analysis cannot be used to draw the conclusion that PSE has achieved equitable outcomes, nor should this analysis be used to track and measure inequity. PSE's methodology broadly assigned circuits as highly impacted or vulnerable population circuits (named population circuits) and used measures that are poor indicators of the reliability experience for disparate customer groups. The biggest problem with this analysis, however, is selection bias. PSE's Named Communities are concentrated in dense geographic areas,[90] which, as discussed below, renders the SAIDI and SAIFI data unreliable for measuring equity. Finally, PSE did not provide

[88] Jacobs, Exh-JJJ-3.
[89] Navarro, Exh. HEN-13 at 2.
[90] Navarro, Exh. HEN-14; Navarro, Exh. HEN-15.

evidence demonstrating that Named Communities value reliability as measured by SAIDI and SAIFI.

Q. Why is PSE's methodology flawed?

A. PSE counted "any circuit that serves either of these defined groups [highly impacted communities and vulnerable populations], even if it is just one customer or one foot of distribution line, . . . as [a] Named Population Circuit."[91] This means 524 of PSE's total circuits are classified as "named community circuits." PSE witness C. Koch explains that "PSE will determine the reliability performance experienced by all customers on these circuit recognizing that some specific customers may not be categorized by these definitions as PSE captures reliability most readily by circuit. PSE will have to research data system improvements to tie specific customers to reliability data in the future." [92] Using PSE's approach, if five customers out of 500 customers on a circuit reside in a census tract designated "highly impacted," all 500 of those customers get counted as "highly impacted." PSE's analysis far too broadly defines "named community circuits", and thus dilutes the usefulness of the results.

Q. Why are the measures PSE proposes poor indicators?

A. These metrics are intended to provide a system wide view of reliability and should not be used to measure the service in local communities. SAIDI and SAIFI are averages - SAIDI measures the average number of interruption minutes per customer per year and SAIFI measures the average number of customer interruptions. As

[91] Koch, Exh. CAK 1-Tr at 52: 2-6.
[92] Koch, Exh. CAK-1Tr at 52: 5-13.

stated in PSE's 2020 Electric Service Reliability Report, "Metrics like SAIDI and SAIFI are useful for tracking system-wide progress but may hide customer level reliability concerns."[93] This indicator does not provide useful information about differences in customer experiences, the burden of interruptions in power, or the value of the load lost to a customer in an outage.

Q. Does PSE have more useful metrics that could assist with performing an equity analysis?

A. Yes. As stated by PSE, SAIDI and SAIFI "along with Customers Experiencing Multiple Interruptions (CEMI) and customer complaints are used to measure changes in reliability at PSE."[94] CEMI provides the range of customer experiences related to interruption frequency.[95] PSE also tracks the number of customer complaints and explains "Because the number of complaints is so small and because relatively large changes in the number of complaints can occur depending on where and when storms occur, changes in complaints are not well correlated to SAIDI or SAIFI. As with CEMI, this information is most useful for PSE as a tool to identify customers with reliability concerns that might not be seen in a system-wide or circuit level metric analysis."[96] While CEMI and customer complaints are current metrics that PSE tracks, PSE could also track reliability through other methods. For example, a

[93] Navarro, Exh. HEN-16 at 10.
[94] Navarro, Exh. HEN-16 at 2.
[95] CEMI measures the percentage of customers who have experienced zero to multiple sustained interruptions. It is calculated by totaling the number of non-major event day interruptions experienced by each customer. Then the number of customers who had the set number of interruptions is totaled and divided by the average annual number of electric customers.
[96] Navarro, Exh. HEN-16 at 2.

report prepared for the Commission on "Equity Considerations in Defining and Addressing Energy Security and Resiliency" found:

> Investment in grid hardening and the order in which service is restored after an outage both impact different communities and households differently. In addition to traditional reliability metrics like System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI), policymakers, regulators, and utilities will need new approaches to evaluate incremental and long-term investments in named communities to demonstrate grid and community resilience and address energy equity goals.[97]

Q. Are there other options PSE could consider?

A. Yes. PSE could undertake a scenario analysis of reliability of investments, or analysis of the value of lost load to understand disparate experiences of reliability and analyze reliability and resiliency focused investment decisions. Either of these new approaches, or using additional SQI's like CEMI and customer complaints, would provide a more robust understanding of reliability than SAIDI and SAIFI alone.

Q. Why is PSE's selection bias a problem?

A. PSE is aware that the Company has chosen to use metrics that are likely to show that Named Communities perform best. In a DR, PSE explained "…areas with reliability concerns are generally in rural areas and may not be funded through the traditional optimization."[98] In PSE's service territory, PSE's highly impacted communities and vulnerable populations are most concentrated in urban areas with more dense

[97] Navarro, Exh HEN-17 at 11.
[98] Navarro, Exh. HEN-18.

housing.[99] PSE is thus aware that the Company has chosen to use metrics that are likely to show that Named Communities perform best.

Q. Does PSE acknowledge this correlation or explain why these communities have higher scores for these SQI's?

A. No. When asked why Named Communities have better reliability, PSE responded that the Company "is not able to provide a reason for reliability tending to be better in named populations at this time as the evaluation of this trend is ongoing. At this point, there is not one clear reason, thus more review is needed to understand how subtle differences in circuit characteristics, location, and past investments may have resulted in better reliability."[100] PSE first calculated these SAIDI and SAIFI scores for Named Communities in September of 2021.[101] The Company has had sufficient time to posit why the circuits identified in this analysis as Named Communities tend to perform better than circuits not deemed Named Communities. And, indeed, in a data request response, PSE provided a spreadsheet which shows the Company conducted some analysis to understand these results.[102] This analysis did not inform PSE investment decisions in this MYRP.

[99] Navarro, Exh. HEN-14; Navarro, Exh. HEN-15.
[100] Navarro, Exh. HEN-19.
[101] Navarro, Exh HEN-20.
[102] Navarro, Exh. HEN-21.

Q. Does PSE's equity-related analysis show PSE has achieved equitable outcomes?

A. No. All PSE's analysis shows is that, for PSE's loose definition of Named Community circuits, SAIDI and SAIFI are, by coincidence, marginally better for highly impacted communities and vulnerable populations.

Q. Did PSE provide evidence that SAIDI and SAIFI are the best measures of reliability as compared to other SQIs that the Company tracks?

A. No. In a data request response, PSE explained that the Company decided to use SAIDI and SAIFI as reliability measures for Named Communities rather than other SQI's because SAIDI and SAIFI are the Company's SQIs for electric reliability. [103]

Q. Did PSE provide evidence that Named Communities value reliability as measured by SAIDI and SAIFI?

A. No. Lacking any direct evidence on the subject from PSE, Staff reviewed the feedback section of the CEIP to see if it contained any hint that Named Communities value reliability as measured by SAIDI and SAIFI but found none. Staff did not find in the EAG meeting materials or summaries any indication that the group identified reliability as measured by SAIDI and SAIFI as a priority concern.[104] PSE did identify in the CEIP "resilience and energy security as a theme the EAG provided support for."[105] But this theme is very different from system reliability.

[103] Navarro, Exh. HEN-21.
[104] *See generally* Puget Sound Energy, Clean Energy Implementation Equity Advisory Group Materials, *available at* https://www.cleanenergyplan.pse.com/#1388287572 (last visited July 14, 2022).
[105] *In re Puget Sound Energy*, Docket UE-210795, Final Clean Energy Implementation Plan, Appendix C6 at 10 (Dec. 17, 2021) (interested persons wanted to "make the power grid more reliable and less susceptible to

Q. Did PSE provide the study that found SAIDI and SAIFI are better for Named Communities relative to the general customer base to PSE's EAG?

A. Staff is not aware of the study being shared with the EAG.

Q. Did PSE provide the EAG with alternative measures of reliability or resilience including other SQI's?

A. No. Staff is not aware that PSE's EAG was presented with measures of reliability or resilience other than SAIDI and SAIFI.

Q. Does Staff support PSE's proposal to use SAIDI and SAIFI for Named Communities as performance measures?

A. No. Using SAIDI and SAIFI as performance measures to track whether PSE is advancing equitable outcomes is insufficient. The measures do not provide useful information about how Company actions and investments impact the distribution of outcomes, nor has the Company shown that Named Communities particularly value improvements in reliability as measured by SAIDI and SAIFI.

Q. Please describe how PSE attempted to demonstrate equitable outcomes in Grid Modernization.

A. PSE referred Staff to Exh. CAK-5 to see how "various grid modernization programs are directly benefiting highly impacted communities… and vulnerable

mass power outages. They suggested that tools like battery storage devices, microgrids, and rooftop solar could decrease the number of households that experience power outages during disaster events like major storms or earthquakes.").

populations"[106] Exh. CAK-5 shows that out of 103 circuits identified for a grid modernization project, 27 of those circuits are labeled either "highly impacted" or "vulnerable populations."

PSE provided no discussion of how projects were chosen for these circuits, what benefits these modernization projects may provide to Named Communities, examination of existing burdens, nor how those burdens may impact Named Communities' ability to access benefits associated with these grid modernization projects. The fact that these circuits in part serve Named Communities does not appear to have been an input to the Company's decisions. This analysis suffers the same flaw noted in the SAIDI and SAIFI study – PSE too broadly assigned circuits as "named communities" and therefore overcounts benefit to Named Communities.

Q. Did PSE provide evidence that Named Communities value these types of projects, or evidence that Named Communities were engaged in the decision to deploy these projects?

A. No. As discussed earlier, from the standpoint of procedural equity, it is important to consider whether the communities that are ostensibly benefiting from a project were engaged in, and value, the decision to deploy said projects. PSE did not provide evidence that either of these procedural equity components were employed.

[106] Navarro, Exh. HEN-18.

D. Recommendations

Q. What are Staff's recommendations regarding PSE's achievement of equitable outcomes?

A. Staff recommends that the Commission require PSE to develop a baseline equity assessment and support its annual filing in the MYRP with a demonstration of progress towards achievement of equitable outcomes. This demonstration should include three components:

- Identifying metrics and objectives used when making investments included in the plan
- Demonstrating how plan investments are performing against those metrics
- Demonstrating how PSE's actions have made an impact on the issues tracked.

Q. Please elaborate on the baseline equity assessment.

A. The Commission should require PSE to develop a baseline equity assessment informed by prior equity work.

This baseline equity assessment should include input from affected persons including but not limited to the EAG, the DSP Technical Advisory Group, Named Communities, and other relevant advisory groups and customers. This assessment must identify metrics and data sources and demonstrate that these metrics are important to named communities by highlighting how the input of affected persons resulted in each metric. The end result of this is a baseline understanding of the

current distribution of outcomes. Importantly, this assessment should be informed by prior equity work. If PSE undertakes an equity assessment as if starting from scratch, that will render the many hours of work from the Company and from affected persons conducted before this as irrelevant, and it will delay implementation.

Q. Please elaborate on the "prior equity work."

A. There are three things that PSE should build upon:

- The Washington Environmental Health Disparities map (WAEHD).
- Equity Assessment in PSE's 2021 IRP.
- Current Conditions Assessment in PSE's 2021 CEIP.

PSE's data request responses to Staff in this proceeding often consisted of an argument about how step one of Company-wide equity work will be identifying current benefits and burdens. While this is the first step in analyzing distributional equity, PSE neglected to mention that it has already conducted some equity analysis, although this work has gaps.[107] While this prior work on its own does not constitute a baseline equity assessment for both the gas and electric operation of the Company, this work is a starting point.

Q. What is the WAEHD map?

A. The WAEHD map is a mapping tool that "ranks the cumulative risk each

[107] The WAEHD was designed to provide comparisons that are valid throughout the state and thus some things that would be specifically relevant to PSE's service territory may not be included. The IRP equity assessment was not designed with input from named communities and thus the process did not include procedural equity. The CEIP current conditions assessment was designed to be relevant to the transition to clean electricity and thus may not include elements that are important to gas operations.

neighborhood in Washington faces from environmental factors that influence health outcomes…. It uses state and national data to map 19 indicators of community health. Development of the tool included a 'process shaped by input from affected communities through a series of 11 statewide "listening sessions.'" In addition to identifying census tracts that defined as highly impacted communities,[108] the tool contains many different views using many data sets. The tool identifies cumulative risk scores, but also identifies distinct scores for different indicators – for example census tracts with high levels of low birth rates, and exposure to diesel emissions.[109]

Q. What is the IRP equity assessment? [110]

A. PSE developed an "Economic, Health, and Environmental Benefits Assessment of Current Conditions" as a part of the Company's 2021 IRP – this was a requirement to developing the Company's Clean Energy Action Plan.[111] The goals of this assessment were to "1) identify named populations and 2) assess disparities between named populations and a "typical PSE customer." This was a geographical analysis in which PSE aggregated all data to the census tract level and reported as averages by census tract. PSE acknowledged that this assessment was "preliminary and lacks significant stakeholder feedback and iteration."

[108] WAC 480-100-605 as a community designated by the department of health based on the cumulative impact analysis required by 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.
[109] University of Washington, Washington Environmental Health Disparities Map Project, *available at* https://deohs.washington.edu/washington-environmental-health-disparities-map-project (last visited July 14, 2022).
[110] 2021 PSE IRP – Appendix K, Customer Benefits Assessment.
[111] WAC 480-100-620(9).

Q. What is the CEIP current conditions assessment? [112]

A. This is an update to the current conditions assessment conducted in PSE's IRP. In this assessment PSE identified more granular data and engaged with affected persons. PSE identified highly impacted communities and vulnerable populations and baseline data for most, but not all, customer benefit indicators. In Chapter 8 of the CEIP, "future commitments," PSE proposed a work plan to "develop and solidify outstanding questions." This deliverable is the "equity assessment" that was discussed earlier.[113]

Q. What else is required by PSE to provide a good baseline equity assessment?

A. The analysis should be informed by input from Named Communities and other affected persons. The Company should provide evidence that the metrics are valued by Named Communities and an explanation for why the metric was chosen.

Q. Why is this baseline equity assessment necessary?

A. The Commission can then use the results as a baseline in future rate proceedings. In order for the Company to make decisions that advance equity, the Company must first understand the benefits and burdens of PSE's operations. It is necessary for the Commission, affected persons, and the company to have a shared understanding of the distribution of outcomes so that progress or deterioration of equitable outcomes can be transparently identified. These benefits and burdens should be defined by

[112] Jacobs, Exh. JJJ-3 - Chapter 3, Highly Impacted Communities and Vulnerable Populations.
[113] Jacobs, Exh. JJJ-3 - Chapter 8, Current Commitments.

those experiencing the benefits and burdens of this system with a particular focus on Named Communities. Staff's recommendation ensures that the process to identify those metrics is one consistent with procedural equity.

Q. Please elaborate on the demonstrations that you recommend.

A. The Commission should require PSE to support its annual update filing under the MYRP with a demonstration of progress towards achievement of equitable outcomes. To demonstrate this progress, the Commission should require PSE to identify the metrics and objectives it used when it made investments included in the plan and demonstrate how plan investments are performing against those metrics and how PSE's actions have had an impact on the metrics.

Q. Why are these demonstrations necessary?

A. The annual update ensures that the metrics identified in the baseline equity assessment are used for investment decision making. This recommendation sets guidance for how the Company should use the metrics identified, and how the Company can demonstrate to the Commission that it is fulfilling its equity mandate. The Commission could use this update to, for example make cost recovery dependent on a demonstration of progress towards more equitable outcomes to incent the Company to make investment decisions and present rate plans that more equitably distribute the benefits and burdens of PSE's operations.

Q. Does this conclude your testimony?

A. Yes.