**Exh. PK-6T**
**Dockets UE-240004,**
**UG-240005, UE-230810**
**Witness: Paul Koenig**

**BEFORE THE WASHINGTON**
**UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**<br><br>**Complainant,**<br><br>**v.**<br><br>**PUGET SOUND ENERGY,**<br><br>**Respondent.** | **DOCKETS UE-240004, UG-240005 and UE-230810 (Consolidated)** |

**CROSS-ANSWERING TESTIMONY OF**

**PAUL KOENIG**

**STAFF OF**
**WASHINGTON UTILITIES AND**
**TRANSPORTATION COMMISSION**

***Demand Response Performance Incentive Mechanism***

**September 18, 2024**

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## I. INTRODUCTION

**Q. Are you the same Paul Koenig who testified previously in this case?**

A. Yes.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to respond to certain proposals presented by The Energy Project (TEP) witness Shaylee Stokes; Joint Environmental Advocates (JEA) witnesses Lauren McCloy, Mariel Thuraisingham, and Charlee Isabella Thompson; and the Alliance of Western Energy Consumers (AWEC) witness Bradley G. Mullins regarding Puget Sound Energy's (PSE) proposed changes to its Demand Response (DR) performance incentive mechanism (PIM). Specifically, I address proposed changes to the incentive cap, DR target, penalty mechanisms, and incorporation of resource adequacy into the PIM design. In addition, I briefly address concerns regarding the connection between the DR PIM and DR power purchase agreement (PPA) recovery.

**Q. Please summarize your recommendations regarding the proposed changes to the demand response PIM.**

A. I recommend the Commission forgo PSE's proposed changes to its DR PIM and adopt Staff's alternative DR PIM proposal.[1] Staff's alternative DR PIM would incentivize DR while promoting equity for DR in Named Communities. Furthermore, Staff does not object to the proposals from various parties regarding the DR PIM, including the

[1] *See* Exh. PK-1T at 13:10-20:4.

maintenance of a DR PIM incentive cap, an increase to the DR target, the inclusion of a penalty mechanism, and the inclusion of resource adequacy as a point of measurement. My testimony elaborates on each of these proposals below.

## II. INCENTIVE CAP

**Q. Please provide a brief summary of PSE's proposal and Staff's position regarding the incentive cap.**

A. As an update to its DR PIM, PSE is proposing to increase the $1 million incentive cap from the last general rate case (GRC) to $3 million in this case.[2] In my response testimony, I recommend that the Commission forgo PSE's proposed DR PIM in favor of Staff's alternative DR PIM proposal, which would better address PSE's equity requirement of providing over 30 percent of energy benefit to Named Community customers.[3] I accepted PSE's proposed incentive cap of $3 million, but emphasized that if PSE is awarded an incentive under the PIM, the DR that counts toward the PIM must be cost-effective, including costs, benefits, and the PIM incentive itself.[4]

**Q. Have other parties made DR PIM incentive cap proposals?**

A. Yes. Both TEP witness Stokes and AWEC witness Mullins propose maintaining the existing $1 million incentive cap on PSE's DR PIM. TEP recommends a combined cap on all DR incentives (including both the DR PIM and the return on DR PPAs) of no more

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[2] Archuleta, Exh. GA-1T at 20:11-12.
[3] *See* Exh. PK-1T at 17:1-18:12.
[4] *Id.* at 18:14-19:2.

than $1 million to stay consistent with the settlement in the last GRC.[5] AWEC, along with proposing a rejection of PSE's return on its DR PPAs, also recommends that the Commission retain the current PIM incentive cap.[6]

**Q. How does the DR PIM issue relate to Staff's DR PPA testimony?**

A. Staff recommended that the Commission allow PSE recovery of its DR PPAs, which PSE selected to meet the 2025 winter cumulative peak DR goal of 86 megawatts (MW) and allow PSE to earn a return on these DR PPAs.[7] Staff notes that this return should be calculated at the Company's authorized cost of debt rather than at its authorized rate of return.[8] Please see Exh. CRM-1T for further discussion on PSE's rate of return on DR PPAs.

TEP,[9] JEA,[10] and AWEC[11] have all argued against PSE earning a rate of return on its DR PPAs. These parties argue: 1) that the inclusion of a rate or return on DR PPAs would add an additional $1.36 million in costs for PSE's customers over the course of the multi-year rate plan,[12] 2) the DR PIM is a preferred 'outcome-based' incentive when compared to the DR PPAs which reward the company for simply signing a contract,[13] and 3) the Commission is not required to provide the utilities with financial incentives for

[5] Stokes, Exh. SNS-1T at 62:10-11.
[6] Mullins, Exh. BGM-1T at 33:6-7.
[7] *See* Exh. PK-1T at 13:6-8.
[8] McGuire, Exh. CRM-1T at 79:12-80:4.
[9] *See* Stokes, Exh. SNS-1T at 58:3-4.
[10] *See* McCloy, Exh. LCM-1T at 16:3-4.
[11] *See* Mullins, Exh. BGM-1T at 30:4-18.
[12] *Id.* at 30:1-2.
[13] McCloy, Exh. LCM-1T at 16:1-2.

signing PPAs, and therefore has discretion to approve or reject utility requests to earn a return on PPAs.[14]

**Q. How does Staff respond to these arguments?**

A. Staff understands these concerns and recognizes there is potential for doubly incentivizing DR acquisition by providing incentives through the DR PIM as well as a return on DR PPAs. Therefore, to address those concerns, Staff is not opposed to maintaining the DR PIM incentive cap of $1 million if the Commission authorizes PSE to earn a return on qualifying DR PPAs.

**Q. Please elaborate on TEP and AWEC's incentive cap recommendations.**

A. While TEP argues that the Commission should reject both PSE's DR PIM and PSE's requested return on DR PPAs,[15] witness Stokes states that "if the Commission disagrees and decides to allow an incentive, it should set a total cap for both the phantom cost of capital and the PIM together."[16] TEP therefore proposes that the total DR incentive cap remain at $1 million. AWEC also disagrees with PSE's proposed $3 million incentive cap. In witness Mullins' testimony, AWEC argues that, "[b]ecause PSE has increased the scope of PIM eligible programs, and because the proposed $3 million cap applies to all DR programs in the aggregate, the likelihood that shareholders will receive a benefit correspondingly increases."[17] AWEC further states that, when looking at both the return

[14] Stokes, Exh. SNS-1T at 57:2-16.
[15] *Id.* at 6:10-13.
[16] *Id.* at 61:17-19.
[17] Mullins, Exh. BGM-1T at 32:16-18.

on DR PPAs and the DR PIM incentive, PSE customers could potentially be paying $4.36 million on DR programs without any incremental benefit.[18]

**Q. Does Staff agree with TEP and AWEC's recommendations?**

A. In part. Staff's position remains that the Commission should authorize a DR PIM and Staff disagrees with the position that the Commission should not allow PSE to earn a return on qualifying DR PPAs pursuant to RCW 80.28.410(2)(b). However, Staff is not opposed to maintaining a $1 million incentive cap on the DR PIM.

Staff emphasizes that the financial incentives under the DR PIM and the return on DR PPAs serve two separate and independent purposes. While the purpose of the DR PIM is to incent DR performance, RCW 80.28.410 is not intended to incentivize DR at all and is instead meant to eliminate utility bias against PPAs. Therefore, it is entirely appropriate to set a $3 million incentive cap for the DR PIM that is separate and independent from any returns the company earns on PPAs.

However, while Staff has stated in prior testimony that it agrees with PSE's logic that an increase to the incentives cap could be warranted as program costs and benefits increase, Staff has no objection to maintaining the current cap of $1 million as the DR PIM continues to develop.

**Q. How do TEP and AWEC's proposals affect Staff's alternative DR PIM proposal?**

A. In my response testimony, I lay out Staff's alternative DR PIM proposal, which provides a financial incentive for DR PIM *overachievement* equal to PSE's DR program costs,

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[18] *Id.* at 33:9-11.

multiplied by the average of three values (the percent of additional benefits to Named Communities, the percent of additional DR MWs above the target, and PSE's weighted average cost of capital).[19] This alternative DR PIM would have an incentive cap of $3 million ,with the caveat that DR for the PIM must be cost-effective including costs, benefits, and the PIM incentive itself. The continuation of a $1 million incentive cap would not affect the structure of this alternative DR PIM. Considering Staff's recommendation on the Company's return on its DR PPA's, Staff believes that this $1 million incentive cap is reasonable and would prevent customers from paying for unnecessary incentives for "business as usual" activities.

## III. DEMAND RESPONSE TARGET

**Q. Have any parties disagreed with PSE's proposed 149 MW DR PIM target?**

A. Yes. Lauren McCloy with JEA argues that the proposed 149 MW target is too low.[20]

**Q. What does JEA recommend as a target for PSE's DR PIM?**

A. JEA recommends the adoption of a DR stretch goal for 2026, which is aligned with the Washington Decarbonization Act for Large Combination Utilities, now codified as chapter 80.86 RCW. JEA argues that, in the absence of an enforceable 2026 DR target, a stretch goal within the DR PIM would incentivize PSE to build the foundation for a robust program to support its 2027 Integrated System Plan filing.[21] JEA proposes that

[19] *See* Exh. PK-1T at 17:13-18:1.
[20] McCloy, Exh. LCM-1T at 17:14-21.
[21] *Id.* at 18:15-19.

"[a]n appropriate stretch goal for 2026-2027 would be 482 MW (winter) and 422 MW (summer)."[22]

**Q. Does Staff agree with Witness McCloy's recommendations?**

A. In part. While Staff agrees with JEA that the DR PIM targets should be high in order to eventually meet the goal of annual DR and demand flexibility equal to, or greater than, 10 percent of winter and summer peak, it is also important that there be a transitionary period for these relatively new DR programs to develop and grow within Washington. As seen in the testimony of PSE's Gilbert Archuletta, the DR rollout timeline only began shortlisting and contracting in the fourth quarter of 2022, with DR program participation beginning halfway through 2023.[23] With this in mind, Staff believes that its proposed 207 MW target,[24] which is already larger than PSE's own 149 MW target, would be an appropriate goal for PSE's DR PIM prior to meeting its 10 percent goal required by RCW 80.86.

## IV. PENALTY MECHANISM

**Q. Have any parties proposed the inclusion of a penalty mechanism in PSE's DR PIM?**

A. Yes. TEP and JEA have proposed including a penalty mechanism within PSE's DR PIM.

[22] *Id.* at 19:13.
[23] Archuleta, Exh. GA-1T at 14, Figure 1.
[24] *See* Exh. PK-1T at 15:18.

**Q. Why are TEP and JEA proposing a penalty mechanism?**

A. TEP and JEA propose that a penalty mechanism be included in PSE's DR PIM in order to greater incent PSE to meet its DR target. TEP, in the testimony of witness Stokes, argues in favor of a penalty, stating "[a] properly designed PIM includes financial penalties for failures and only rewards shareholders when the utility substantially exceeds the target."[25] Additionally JEA, in the testimony of Mariel Thuraisingham and Charlee Thompson when discussing Performance Based Ratemaking (PBR), states that "penalties are necessary and should focus on addressing 'business as usual' activities."[26] JEA further argues that any proposed penalty mechanisms should be structured in such a way that the utilities do not pass penalty costs along to customers as another "cost of business."[27]

**Q. Have TEP and JEA illustrated how a DR penalty mechanism would be implemented into PSE's DR PIM?**

A. No. While both parties advocate for the inclusion of a penalty mechanism, neither TEP nor JEA have illustrated how such a penalty mechanism would/should be implemented into PSE's DR PIM. However, JEA, in the testimony of Bradley Cebulko, does suggest a penalty mechanism for its proposed electrification PIM. This would be a $1 million penalty if PSE fails to meet a lower threshold, potentially 50 percent, of its electrification

[25] Stokes, Exh. SNS-1T at 6:15-17.
[26] Thuraisingham and Thompson, Exh. MT-CT-1T at 40:4-5.
[27] *Id.* at 40:5-9.

targets.[28] Staff believes that a similar type of flat penalty for underperformance could be used within PSE's DR PIM.

**Q. Does Staff agree with TEP and JEA regarding the inclusion of a penalty mechanism?**

A. Staff does not object to the inclusion of a penalty mechanism within the DR PIM.

**Q. Would the inclusion of a penalty mechanism change Staff's alternative DR PIM?**

A. No. The inclusion of a penalty mechanism would not affect the structure of Staff's alternative DR PIM proposal. A proposed penalty mechanism should only activate if the utility underperforms, and Staff's alternative DR PIM is only applicable when the Company overperforms.

## V. RESOURCE ADEQUACY IN THE DR PIM

**Q. Have any parties proposed including resource adequacy as a point of measurement within PSE's DR PIM?**

A. Yes. JEA, in the testimony of Witness McCloy, argues that PSE's DR PIM should be based on PSE's programs' contribution towards resource adequacy.[29]

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[28] Cebulko, Exh. BTC-1T at 52:9-10.
[29] McCloy, Exh. LCM-1T at 18:11-14.

**Q. Why is JEA proposing to measure the DR PIM based on resource adequacy?**

A. JEA argues that, while it is important for PSE to have procurement goals and secure contracts to manage peak load, resource adequacy would be a more accurate measurement of the efficacy of a peak load management program.[30] Furthermore, JEA states that, "[i]nstead of basing the PIM on seasonal MW of demand response achieved, [JEA] recommend[s] basing the PIM on metrics 16 and 17 approved in the last general rate case."[31]

**Q. Has JEA illustrated how a resource adequacy-based DR PIM might be structured?**

A. No. JEA has not illustrated how a resource adequacy-based DR PIM would differ from PSE's current or proposed DR PIM.

**Q. Does Staff agree with JEA's recommendation regarding resource adequacy in the DR PIM?**

A. Staff would not object to connecting resource adequacy to the PIM but has no specific recommendations to address this at this time.

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

A. Yes.

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[30] *Id.* at 18:6-8.

[31] *Id.* at 18:8-10. Metric 16: "Reductions in the Company's resource adequacy need that are attributable to C&I, Residential DLC, and behavioral based programs." Metric 17: "Reductions in the Company's resource adequacy need that are attributable to Residential DLC, and behavioral based programs."