

Attachment A – Docket UG-230893

Proposed Conditions for 2024-2025 PSE Gas Conservation

1) Conservation Target – Approval and Conditions

- a) The following conservation targets are approved for Puget Sound Energy (PSE or Company), with conditions pursuant to RCW 80.28.380. This approval is subject to the Conditions described in Paragraphs (2) through (14) below.
 - i) *Two-Year Conservation Target*: 6,541,000 therms.¹
 - ii) *Two-Year Decoupling Commitment*: 304,500 therms, pursuant to Order 8 in Docket UG-170034.²
 - iii) *Total Two-Year Utility Conservation Goal*: 7,034,500 therms.³
- b) As part of PSE’s biennial conservation acquisition efforts, PSE must continue to invest in regional studies and market transformation, in collaboration with funding from other parties and with other strategic market partners in this biennium that complements PSE’s energy efficiency programs, planning, services, and measures.

2) **PSE Retains Responsibility.** Nothing in these conditions relieves PSE of the sole responsibility for complying with RCW 80.28.380. Specifically, the conditions regarding the need for a high degree of transparency, and communication and consultation with external stakeholders, diminish neither PSE’s operational authority nor its ultimate responsibility.

3) Identifying Conservation Potential

- a) *Ten-year conservation potential.* Every two years, PSE must project its cumulative ten-year conservation potential in a conservation potential assessment (CPA).
 - i) This projection must consider all conservation resources that are cost-effective and available.
 - ii) Methods for identifying conservation potential
 - (1) In identifying conservation potential PSE must be consistent with the methodologies used by the Northwest Power and Conservation Council (NWPPCC) as summarized in this subsection.
 - (a) Technical potential. Determine the amount of conservation that is technically feasible, considering measures and the number of these measures that could physically be installed or implemented, without regard to achievability or cost.
 - (b) Achievable technical potential. Determine the amount of the conservation technical potential that is available within the planning period, considering barriers to market penetration and the rate at which savings could be acquired.

¹ The two-year conservation target includes the Company’s Conservation Potential Assessment, adjustments for expected site-specific conservation opportunities, and consistent with Condition 4(b) below.

² Docket UG-170034, Order 08, ¶250, 261.

³ The Total Two-Year Utility Conservation Goal incorporates the Two-Year Conservation Target, the Decoupling Commitment, projected Northwest Energy Efficiency Alliance (NEEA) savings (if any), and any additional conservation savings that PSE expects to achieve above and beyond these targets, such as pilots or other savings.

- (c) Economic achievable potential. Establish the economic achievable potential, which is the conservation potential that is cost-effective, by comparing the total resource cost of conservation measures to the cost of other resources available to meet the expected demand for gas. A utility may use either of the following approaches to identify achievable economic potential:
- (i) Integrated portfolio approach. A utility may analyze, as a part of its integrated resource plan (IRP), the cost-effective potential of conservation resources over a range of potential future outcomes for unknown variables, such as future demand, costs, and resource availability. The achievable economic potential will be based on a resource plan that achieves a long-run lowest reasonable cost gas system considering all costs and quantifiable nonenergy costs and benefits.
 - (ii) Benefit-cost ratio approach. A utility may establish economic achievable potential as those conservation measures or programs that pass a total resource cost test, in which the ratio of total benefits to total costs is one or greater. The benefit-cost calculation must use inputs that incorporate the cost of risks that would otherwise be reflected in an integrated portfolio approach.
- (d) Total resource cost. In determining economic achievable potential as provided in (c) of this subsection, perform a life-cycle cost analysis of measures or programs to determine the net levelized cost, as described in this subsection:
- (i) Conduct a total resource cost analysis that assesses all costs and all benefits of conservation measures regardless of who pays the costs or receives the benefits.
 - (ii) Include the incremental savings and incremental costs of measures and replacement measures where resources or measures have different measure lifetimes.
 - (iii) Calculate the value of the gas saved based on when it is saved. In performing this calculation, use time-differentiated avoided costs to conduct the analysis that determines the financial value of gas saved through conservation.
 - (iv) Include the increase or decrease in annual or periodic operations and maintenance costs due to conservation measures.
 - (v) Include avoided energy costs equal to a forecast of regional market prices plus variable transportation costs (e.g., fuel and variable charges), which represents the cost of the next increment of gas available to the utility for the life of the energy efficiency measures to which it is compared.
 - (vi) Include benefits from deferred infrastructure capacity costs for system capacity resources and distribution capacity resources required in peak load resource planning.
 - (vii) Include the social cost of greenhouse gas emissions from avoided gas consumption.

- (viii) If necessary, include a risk mitigation credit to reflect the additional value of conservation, not otherwise accounted for in other inputs, in reducing the risk associated with costs of avoided nonconservation resources. If this value is negative, use a value of 0 for the risk mitigation credit.
 - (ix) Include all nonenergy impacts that a resource or measure may provide that can be reasonably quantified and monetized.
 - (x) Include an estimate of program administrative costs.
 - (xi) Include the cost of financing measures using the capital costs of the entity that is expected to pay for the measure.
 - (xii) Discount future costs and benefits at a discount rate equal to PSE's weighted average cost of capital;⁴ and
 - (xiii) Include a 10 percent bonus to the energy and capacity benefits of conservation measures as defined in 16 U.S.C. § 839a of the Pacific Northwest Electric Power Planning and Conservation Act.
- iii) This projection must be either identified through or included as an input into PSE's most recent IRP. PSE must document any differences from the projection in the potential assessment and the IRP.
 - iv) The CPA must include a list of each measure used in the potential, its unit energy savings value, first-year therm savings, customer incremental cost, life of the measure, any applicable nonenergy impacts, and the source of the values.
- b) PSE must file a CPA by June 1, 2025, in a new docket. The CPA must be approved by the Commission per RCW 80.28.380.

4) Acquiring All Conservation Resources

- a) Process for acquiring all conservation
 - i) *Process.* PSE's obligation to identify and acquire all conservation measures that are available and cost-effective includes the following process:
 - (1) Identify potential. Identify the cost-effective and available potential of possible technologies and conservation measures in PSE's service territory.
 - (2) Develop portfolio. Develop a conservation portfolio that includes all available, cost-effective conservation. PSE must develop programs to acquire available conservation from all the types of conservation identified in (ii) of this subsection. The portfolio must include conservation programs and mechanisms intended to reduce the energy burden of low-income customers, including programs and mechanisms identified in Condition (4)(f) below or other utility planning processes. If no cost-effective conservation is available from one of the types of conservation, PSE is not obligated to acquire such a resource.
 - (3) Implement programs. Implement conservation programs identified in the portfolio to the extent the portfolio remains cost-effective and available. Implementation

⁴ See Docket UG-121207, "Policy Statement on the Evaluation of the Cost-Effectiveness of Natural Gas Conservation Programs".

methods shall not unnecessarily limit the acquisition of all available conservation that is cost-effective.

- (4) Adaptively manage. Continuously review and update as appropriate the conservation portfolio to adapt to changing market conditions and developing technologies. PSE must stay up-to-date on the latest developments in the conservation field and assess the potential of such developments for implementation in its service territory.
 - ii) *Types*. Types of conservation include, but are not limited to:
 - (1) End-use efficiency;
 - (2) Behavioral programs; and
 - (3) Market transformation.
 - iii) *Pilots*. PSE must consider, in consultation with the Advisory Group, implementing pilot projects when appropriate and expected to produce cost-effective savings within the current or immediately subsequent biennium if the overall portfolio remains cost-effective.
- b) Biennial conservation target. Beginning January 2022, and every two years thereafter, PSE must establish a biennial conservation target.
- i) The biennial conservation target must identify, and quantify in terms, all conservation that is available and cost-effective.
 - ii) The biennial conservation target must be based on the CPA developed under Condition 3 above and include any adjustments for known or expected site-specific projects. PSE must consult with the Advisory Group in determining how to set its target.
 - iii) *Excess conservation*. No more than twenty-five percent of any biennial target may be met with excess conservation savings allowed by this condition. Excess conservation may only be used to mitigate shortfalls in the immediately subsequent two biennia and may not be used to adjust PSE's biennial target. The presence of excess conservation does not relieve PSE of its obligation to pursue the level of conservation in its biennial target.
 - (1) Cost-effective conservation achieved over a biennial conservation target may be used to meet up to twenty percent of each of the immediately subsequent two biennial targets.
 - (2) PSE may use single large facility conservation savings achieved over its biennial target to meet up to 10 percent of each of the immediately subsequent two biennial conservation targets. If PSE believes it has a project that may constitute a "single large facility", it should work with its Advisory Group to determine how to meet this condition.
- c) Prudence. PSE retains the responsibility to demonstrate the prudence of all conservation expenditures.
- d) Energy savings. When available, PSE must use unit energy savings values and standard protocols approved by the regional technical forum. Unit energy savings value or standard protocol should be:

- i) Based on generally accepted methods, impact evaluation data, or other reliable and relevant data that includes verified savings levels;
 - ii) Or based on territory-specific values determined from pre/post billing EM&V activities, and
 - iii) Presented to its advisory group for review. The Commission retains discretion to determine an appropriate value or protocol.
- e) Applicable sectors. PSE must offer a mix of conservation programs to ensure it is serving each customer sector, including programs targeted to the low-income subset of residential customers.
- f) Low-income conservation
- i) PSE must fully fund low-income conservation measures that are determined by the implementing agency to be cost-effective consistent with either the *Weatherization Manual* maintained by the Washington State Department of Commerce or when it is cost-effective to do so using utility-specific avoided costs. For purposes of this subsection, "fully fund" does not prohibit the agency leveraging other funding sources, in combination with utility funds, to fund low-income conservation projects. Measures identified through the priority list in the *Weatherization Manual* are considered cost-effective. In addition, PSE may fully fund repairs, administrative costs, and health and safety improvements associated with cost-effective low-income conservation measures. PSE shall maintain a project cost allowance of thirty percent (30%) for Administrative/Indirect Rate associated with the delivery of low-income conservation measures.
 - ii) PSE's biennial conservation plan must include low-income conservation programs and mechanisms identified. To the extent practicable, PSE must prioritize energy assistance to low-income households with a higher energy burden.
 - iii) PSE must exclude low-income conservation from portfolio-level cost-effectiveness calculations. PSE must account for the costs and benefits, including nonenergy impacts, which accrue over the life of each conservation measure.
 - iv) PSE must count savings from low-income conservation toward meeting its biennial conservation target. Savings may be those calculated consistent with the procedures in the *Weatherization Manual*.

5) Conservation Planning and Reporting

- a) Biennial conservation plan
- i) On or before November 15 of every odd-numbered year, PSE must file with the Commission a biennial conservation plan.
 - ii) The plan must include, but is not limited to:
 - (1) The extent of public participation in the development of the ten-year conservation potential and the biennial conservation target.
 - (2) The ten-year conservation potential, the biennial conservation target, biennial program details, biennial program budgets, and cost-effectiveness calculations.
 - (3) A description of the technologies, data collection, processes, procedures, and assumptions PSE used to develop the figures in Condition 5(a)(ii)(2).

- (4) A description of and support for any changes from the assumptions or methodologies used in PSE's most recent conservation potential assessment.
 - (5) An evaluation, measurement, and verification plan for the biennium including, but not limited to:
 - (a) The evaluation, measurement, and verification framework.
 - (b) The evaluation, measurement, and verification budget; and
 - (c) Identification of programs that will be evaluated during the biennium.
 - iii) For this section, the ten-year conservation potential is derived from Condition 3 above.
 - iv) Program details must be maintained and updated as necessary in PSE's conservation tariff throughout the biennium, under Condition 8 below.
- b) Annual conservation report
- i) On or before June 15 of each year, PSE must file with the Commission, in the same docket as its current biennial conservation plan, an annual conservation report regarding its progress in meeting its conservation target during the preceding year.
 - ii) The annual conservation report must include, but is not limited to:
 - (1) The biennial conservation target.
 - (2) Planned and claimed gas savings from conservation, including a description of the key sources of variance between the planned and actual savings.
 - (3) Budgeted and actual expenditures made to acquire conservation through the conservation cost recovery adjustment described in Condition 12.
 - (4) The portfolio- and program-level cost-effectiveness of the actual gas savings from conservation.
 - (5) All program evaluations completed in the preceding year.
 - (6) A discussion of the steps taken to adaptively manage conservation programs throughout the preceding year.
- c) Biennial conservation report
- i) Beginning in 2025, on or before June 15 of each even-numbered year, PSE must file with the Commission, in the same docket as its current biennial conservation plan, a biennial conservation report regarding its progress in meeting its conservation target during the preceding two years.
 - ii) The biennial conservation report must include:
 - (1) The biennial conservation target.
 - (2) Planned and claimed gas savings from conservation.
 - (3) Budgeted and actual expenditures made to acquire conservation.
 - (4) The portfolio-level cost-effectiveness of the actual gas savings from conservation.
 - (5) An independent third-party evaluation of portfolio-level biennial conservation savings achievement.
 - (6) A summary of the steps taken to adaptively manage conservation programs throughout the preceding two years; and
 - (7) Any other information needed to justify the conservation savings achievement.

- iii) PSE must provide a summary of the biennial conservation report to its customers by bill insert or other suitable method within ninety days of the Commission's final action on the report.
- iv) PSE may file the annual conservation report and the biennial conservation report together as one report, provided that the report includes all the information required in subsections (c) and (d) of this condition and states that it serves as both the annual conservation report and the biennial conservation report.
- d) Plan and report review
 - i) Interested persons may file written comments regarding the biennial conservation plan and biennial conservation report within thirty days of PSE's filing.
 - ii) Upon conclusion of the Commission review of PSE's biennial report or plan, the Commission will issue a decision accepting or rejecting the calculation of PSE's conservation target; or determining whether PSE has acquired enough conservation resources to comply with its conservation target. If PSE does not meet its biennial conservation target described in Condition 1(a), the Commission will determine the amount in terms by which PSE was deficient.
 - iii) Biennial plans and reports may be reviewed through the Commission's open meeting process, as described in chapter 480-07 WAC.
- e) *Publication of reports.* Beginning with the 2024-2025 BCP, all conservation plans and reports required by Commission order as well as a summary of planned and actual savings and expenditures reflected in the plans and reports, must be posted and maintained on PSE's website. Plans and reports must be posted on PSE's website within thirty days of Commission acknowledgment of the plan or order approving the report. A copy of any such plan, report, or summary must be provided to any person upon request.

6) Advisory Group

- a) PSE must use its Advisory Group, initially created under Docket UE-941377 and UG-941378 to advise PSE on conservation issues including but not limited to:
 - i) Conservation programs and measures.
 - ii) Updates to PSE's evaluation, measurement, and verification framework.
 - iii) Modification of existing, or development of new evaluation, measurement, and verification methods.
 - iv) Independent third-party evaluation of portfolio-level biennial conservation achievement.
 - v) Development of conservation potential assessments.
 - vi) The methodology, inputs, and calculations for cost-effectiveness.
 - vii) The data sources and values used to develop and update supply curves.
 - viii) The need for tariff modifications or mid-biennium program corrections.
 - ix) The appropriate level of planning for:
 - (1) Marketing conservation programs.
 - (2) Incentives to customers for measures and services; and
 - (3) Impact, market, and process evaluations.
 - x) Programs for low-income residential customers.

- xi) Establishment of the biennial conservation target and program achievement results compared to the target.
 - xii) Conservation program budgets and actual expenditures compared to budgets.
 - xiii) Development and implementation of new and pilot programs.
 - b) *Advisory group meetings.* PSE must meet with its conservation advisory group at least four times per year. Conservation advisory group members may request additional meetings. PSE must provide reasonable advance notice of all conservation advisory group meetings.
 - c) *Advance notification of filings.* Except for the conservation cost recovery adjustment filing required in Condition 12, PSE must provide its conservation advisory group an electronic copy of all conservation filings that PSE intends to submit to the Commission at least thirty days in advance of the filing. The filing cover letter must document the amount of advance notice provided to the conservation advisory group.
 - d) *Advance notification of meetings.* PSE must notify its conservation advisory group of public meetings scheduled to address its conservation programs, its conservation tariffs, or the development of its conservation potential assessment.
 - e) PSE must notify Advisory Group members of all public meetings scheduled to address PSE's integrated resource plan. PSE must also coordinate a meeting with Advisory Group members and the entity conducting the conservation potential assessment (CPA) addressing the scope and design of the CPA. This meeting must be held early enough in the integrated resource plan public process to incorporate the group's advice. PSE must notify Advisory Group members of IRP advisory group meetings that present the Company's gas price forecasts and resource cost assumptions used in the development of the company's integrated resource plan.
 - f) PSE must consult with the Advisory Groups starting no later than July 1, 2025, to begin to identify achievable conservation potential for 2025-2035 and to begin to set annual and biennial targets for the 2026-2027 biennium, including necessary revisions to program details.
 - g) PSE must inform the Advisory Group members when its projected expenditures indicate that PSE will spend more than 120 percent or less than 80 percent of its annual conservation budget.
 - h) Before filing the Biennial Conservation Plan, PSE must provide the following information to the Advisory Group: draft ten-year conservation potential and two-year target no later than August 15, 2025; draft program details, no later than September 15, 2025; and draft program tariffs no later than October 16, 2025.
- 7) **Annual Budgets and Energy Savings.** PSE must provide its proposed budget to the Advisory Group in a detailed format with a summary page indicating the proposed budget and savings levels for each conservation program, and subsequent supporting spreadsheets providing further detail for each program and line item shown in the summary sheet. The proposed budget must also be filed in support of any cost recovery filing, along with any other necessary workpapers. PSE must allocate a reasonable amount of its program budget

(as determined through consultation with the Advisory Group) towards pilot programs, research, and data collection.

8) Program Details. PSE must maintain its conservation tariffs, with program descriptions, on file with the Commission. Program details about specific measures, incentives, and eligibility requirements must be filed and updated in this docket. PSE must consult its Advisory Group per Condition 6 above before making changes to program details. PSE must notify the Advisory Group when it files updated measures, incentives, or eligibility requirements.

9) Approved Strategies for Selecting and Evaluating Energy Conservation Savings

- a) PSE has identified several potential conservation measures described in the BCP. The Commission is not obligated to accept savings identified in the BCP for purposes of compliance with the targets detailed in this Order.
- b) When PSE proposes a new or significant change to a program, pilot, or tariff schedule, it must present the program to the Advisory Group with program details fully defined, to the extent practicable. The Advisory Group, after consultation, may advise if a revision to the Conservation Plan in this docket is necessary.
- c) PSE must spend a reasonable (as determined through consultation with the Advisory Group) amount of its conservation budget on evaluation, measurement, and verification (EM&V), including a reasonable proportion on independent, third-party EM&V. PSE must perform EM&V annually on a maximum four-year schedule of selected programs such that, over the EM&V cycle, all major programs are covered. The EM&V function includes impact, process, market, and cost test analyses. The results must verify the level at which claimed energy savings have occurred, evaluate the existing internal review processes, and suggest improvements to the program and ongoing EM&V processes.
- d) A final report for the current biennium may be implemented in phases and delivered as a final product at an earlier date, as needed, by PSE.

10) Program Design Principles

- a) Modifications to the programs must be filed with the Commission as revisions to tariffs or as revisions to PSE's current Conservation Plan, as determined in consultation with the Advisory Group.
- b) Incentives and Conservation Program Implementation — Programs, program services, and incentives may be directed to consumers, retailers, manufacturers, trade allies, or other relevant market actors as appropriate for measures or activities that lead to gas energy savings. PSE must work with the Advisory Group to establish a balanced portfolio of measures that provides savings from a variety of savings types and meets the needs of a broad spectrum of PSE customers.
- c) Conservation Efforts without Approved EM&V Protocol — PSE may spend up to 10 percent of its conservation budget on programs whose savings impact has not yet been measured, if the overall portfolio of conservation passes the primary cost-effectiveness test used by the Commission. These programs may include information-only, and pilot

projects. PSE may ask the Commission to modify this spending limit, following the Advisory Group consultation.

- i) Information-only services refer to those information services that are not associated with an active incentive program or that include no on-site technical assistance or on-site delivery of school education programs. Information-only services and behavior change services must be assigned no quantifiable energy savings value without the full support of the Advisory Group.
- ii) If quantifiable energy savings have been identified and Commission-approved for any aspect of such programs, the budget associated with that aspect of the program will no longer be subject to this 10 percent spending restriction.

11) Cost-Effectiveness Tests

- a) The cost-effectiveness analysis required by RCW 80.28.380 must include the costs of greenhouse gas emissions established in RCW 80.28.395.
- b) For the 2024-2025 biennium, PSE must use the modified Total Resource Cost Test (TRC), consistent with the Council, as its primary cost-effectiveness test. The modified TRC test includes all quantifiable nonenergy impacts, a risk adder, and a 10 percent conservation benefit adder. PSE's portfolio must pass the modified TRC test. All cost-effectiveness calculations will assume a Net-to-Gross ratio of 1.0, consistent with the Council's methodology.
 - i) Beginning with the 2024-2025 biennium, PSE must either:
 - (1) Employ a properly-balanced TRC, as described in the Commission's 2013 natural gas conservation policy statement;⁵ or
 - (2) Employ a different cost-effectiveness test as determined in conjunction with Commission Staff and the Advisory Group.
- c) PSE must also provide calculations of the Program Administrator Cost Test (also called the Utility Cost Test) as described in the National Action Plan for Energy Efficiency's study "Understanding Cost-Effectiveness of Energy Efficiency Programs," (November 2008; located at: <https://www7.eere.energy.gov/seeaction/system/files/documents/understanding-cost-effectiveness-ee-programs.pdf>).
- d) PSE must provide calculations of both the TRC and UCT in its plans and reports.
- e) Conservation-related administrative costs must be included in portfolio-level analysis.

12) Recovery through a Gas Conservation Service Rider

- a) Utilities must file with the Commission for recovery of all expected conservation cost changes and amortization of deferred balances. PSE must include its conservation cost recovery procedures in its tariff.
- b) Scope of Expenditures — Funds collected through the Gas Conservation Service Rider must be used on approved conservation programs and their administrative costs.

⁵ See Docket UG-121207, "Policy Statement on the Evaluation of the Cost-Effectiveness of Natural Gas Conservation Programs", at ¶ 35.

- c) Recovery for Each Customer Class —PSE shall retain existing cost recovery mechanisms, subject to the Commission’s Order in Docket UG-120812.⁶
- d) PSE must file revisions to its cost recovery tariff (Schedule 120) by March 1 each year, with a requested effective date of May 1 of that same year.
- e) PSE may not accrue interest or incur carrying charges on deferred conservation cost balances. Utilities must base conservation recovery rates on forward-looking budgeted conservation program costs for the future year with revisions to recover only actual program costs of the prior year. Utilities must also include the effects of variations in actual sales on the recovery of conservation costs in the prior year.

13) Low-Income Programs

a) Low-Income Programs

- i) PSE must demonstrate progress toward sustained energy burden reductions during the 2024-2025 biennium by, at a minimum, funding all eligible and cost-effective low-income conservation measures as described in Condition 4(f).
 - (1) PSE’s biennial report must include the contribution from low-income conservation programs toward sustained energy burden reductions. The report must include the number of participants and any other information that demonstrates progress as described above. The utility should include a discussion of barriers to success, options for overcoming these barriers, and potential uses for increased low-income conservation funding.
 - (2) Energy savings from low-income conservation measures will be counted toward conservation goals.
 - (3) PSE may, after consultation with advisory groups, fully fund repairs, administrative costs, and health and safety improvements associated with cost-effective low-income conservation measures. These costs are excluded from portfolio cost-effectiveness calculations.

14) Additional Commitments

- a) PSE's Customer Energy Management Team will work closely with PSE's IRP Team to ensure that the most recent and accurate assumptions and inputs are included in its 2025 CPA, as defined in Condition 3 of this Attachment, and that any remaining adjustments made to the CPA for purposes of target-setting are made prior to PSE requesting CPA approval by the Commission. This work should be conducted in consultation with the CRAG, and must include, but not be limited to, a discussion of appropriate ramp rates, relevant achievability factors, and any available information concerning the rate of gas customer electrification.

⁶ See the Commission’s Final Order entered on June 28, 2012, in Docket UG-120812 in response to PSE’s Petition for Accounting Order Authorizing Accounting Treatment of the Company’s Gas Conservation Programs.