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July 15, 2020

Filed Via Web Portal

Mark L. Johnson, Executive Director and Secretary
Washington Utilities and Transportation Commission 621
Woodland Square Loop SE
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State Of WASH.
UTIL. AND TRANSP.
COMMISSION

Re: Dockets UE-200413 and UE-200414: Response of Puget Sound Energy to Comments On the Draft 2020 Demand Response Request for Proposals in Docket UE-200413 and the Draft 2020 All-Source Request for Proposals for Peak Capacity Resources in Docket UE-200413

Dear Mr. Johnson:

Puget Sound Energy (“PSE”) appreciates the opportunity to respond to questions posed in comments submitted to the Washington Utilities and Transportation Commission’s (“Commission”) by staff and other stakeholders on PSE’s draft 2020 Demand Response Request for Proposals in Docket UE-200413 and the PSE’s draft 2020 All-Source Request for Proposals for Peak Capacity Resources in Docket UE-200413. In this response, PSE addresses the five specific questions posed by Commission staff on pages 11-12 of their comments, and responds to both their comments and the comments of other stakeholders in the attached matrices.¹ PSE intends to file proposed revisions, as noted in the third column of the attached matrix, to the 2020 All-Source Request for Proposals for Peak Capacity Resources in Docket UE-200413 by July 22, 2020.

Responses to Commission Questions

- 1. Colstrip sale and capacity deficit between 2021 and 2023 (less than 50 MW): Due to its pending status, the company has included the potential impact of the announced sale of PSE’s interests in Colstrip Unit 4 prior to 2025. The sale is expected to result in a need for new capacity resources beginning in 2021. Due to the relatively small size of the deficit between 2021 and 2023 (less than 50 MW), PSE intends to issue a separate RFP for short-term resources to meet this need. *Why is PSE not considering demand response or other resources for this deficit?***

¹ Staff requested a response to the five questions posed on pages 11-12 of their comments by July 15, 2020.

PSE Response

PSE will be evaluating and updating its assumptions and resource needs based on the outcome and timing of the pending sales of PSE's interests in Colstrip Unit 4. If there is a resulting need, PSE will not exclude potential demand response solutions from consideration alongside other short-term resources options.

- 2. The Clean Energy Transformation Act (CETA) provision allowing utilities to earn a return on power purchase agreements (PPAs): PSE's evaluation of new long-term electric generation resources is based on an assessment of five primary criteria: compatibility with resource need, cost minimization, risk management, public benefits, and strategic and financial. Under Exhibit A, Part 2. Cost Minimization, PSE lists the resource cost criteria elements that impact PSE overall cost, such as capital cost, operation and maintenance, transmission costs, and others. Considering CETA's new provisions in RCW 80.28.410, PSE should account for a new, potential cost related to a return on PPAs. *How is PSE planning to account for the return on PPAs in its resource cost criteria element(s)?***

PSE Response

PSE plans to use the range of possible returns on a power purchase agreement authorized in the Washington Clean Energy Transformation Act (between the cost of debt and the authorized rate of return) as book ends for its quantitative analysis. More specifically, in Phase 1 evaluations, PSE proposes to apply an average of the authorized cost of debt and the authorized rate of return for its initial quantitative screening of all proposals based on portfolio cost. In the subsequent portfolio optimization in Phase 2 and resource flexibility analysis of the most favorable proposals to emerge from the initial screening, PSE proposes to conduct sensitivities using both the cost of debt (low case) and authorized rate of return (high case).

This approach allows for expediency in the cost screening of the larger number of proposals in the initial phase, in which outliers that would otherwise be unmoved by the choice of return on power purchase agreements are generally eliminated, while bringing the benefit of scenario analysis in the next phase to test the impact of the PPA return introduced by RCW 80.28.410.

- 3. Joint Demand Response and All-Source Assessments: In its draft All-Source RFP, PSE notes resources that are dispatchable, are shaped to meet winter peak needs, or with generation profiles that align well with PSE's load shape will perform best in PSE's analysis. While the amount of detail PSE has supplied within its Draft All-Source RFP is generally adequate, Staff notes this solicitation is not occurring alone. PSE cites concurrent benefits of issuing a DR RFP along with this All Source RFP. *How will the results or shortlists of both RFPs be jointly assessed?***

Staff encourages PSE to delineate the interactive effects between the Demand Response and All-Source RFPs and specifically detail how both candidate shortlists may compete within a subsequent combined assessment. This could help clarify the ultimate intended outcome of a two-pronged, concurrent acquisition process.

PSE Response

PSE will perform a comparative analysis of all proposals received in response to both the 2020 Demand Response Request for Proposals and the 2020 All-Source Request for Proposals for Peak Capacity Resources to meet a shared resource need. As in the 2018 All-Resources Request for Proposals, PSE's Demand Response RFP team will take the lead on evaluating the qualitative aspects of the demand response proposals consistent with the qualitative criteria described in the 2020 Demand Response Request for Proposals. Meanwhile, the All-Source RFP team will perform a quantitative analysis of all resource proposals. The process, models and metrics used to quantitatively evaluate and compare resources is the same for proposals submitted in response to the 2020 Demand Response Request for Proposals and the 2020 All-Source Request for Proposals for Peak Capacity Resources. PSE's All-Source RFP team will work in partnership with the Demand Response RFP team to interpret the results and determine which resources should be selected to meet a common goal—meeting the capacity resource need at the lowest reasonable cost.

- 4. Independent Evaluator: As PSE embarks on these multiple tracks of complex RFP evaluations of costs, risks, and benefits of various resource types, including demand response, Staff highlights that PSE's CETA-related acquisition processes could benefit from technical expertise offered by a third party, not affiliated with the utility—or an independent evaluator (IE). Is PSE considering an IE to assess or report on the solicitation process, including evaluating and scoring these two (2) RFPs? Why or why not?**

PSE Response

PSE is considering an independent evaluator for the 2020 All-Source Request for Proposals for Peak Capacity Resources but has not yet reached a final decision. PSE has expressed its views on the proposed introduction of an independent evaluator in the request for proposals solicitation and evaluation process in comments submitted in the draft Purchase of Electricity rulemaking (Docket UE-190837).² In written comments submitted on June 29, 2020, PSE shared its observations and recommendations as to the scope, selection, and purpose of an independent evaluator. PSE believes that an appropriate potential role for an independent evaluator would be as a facilitator to help conduct an efficient and effective request for proposals process, and, as an evaluator, to provide an assessment of the fairness and reasonableness of the request for proposals process and decisions.

PSE does not anticipate engaging an independent evaluator to perform a separate evaluation and ranking of proposals submitted in response to the 2020 All-Source Request for Proposals for Peak Capacity Resources. This is because both PSE and an independent evaluator could come to separate yet prudent resource selection decisions, making competing parallel processes not particularly useful in determining whether PSE has met its burdens of prudence, fairness, and equity. A parallel evaluation only demonstrates one way a resource need might be prudently met, not necessarily the only or even the best way, and certainly not whether PSE's way is or is not also reasonable and prudent.

As the draft rule currently stands, WAC 480-107-AAA(2) would require utilities to design a request for proposals process with an independent evaluator, consult with Commission staff, and subsequently seek approval for that independent evaluator by the Commission. Introducing a formal approval

² See PSE Comments in Relation to Purchase of Electricity Rulemaking submitted on June 29, 2020 (UE-10837).

process for an independent evaluator at this time increases additional time and complexity into an already compressed request for proposals process schedule. Thus, if PSE were to engage an independent evaluator for the 2020 All-Source Request for Proposals for Peak Capacity Resources, PSE would seek a flexible and expedited approach to the selection of the independent evaluator and the terms of engagement.

5. Public Benefits Outreach: *As discussed above on Page 11 pertaining to Customer Benefits from Transition to Clean Energy, is PSE planning to conduct additional outreach regarding equitable impacts and the public benefits evaluation criteria? Please indicate how PSE conducted or plans to conduct this outreach.*

PSE Response

PSE will explore opportunities to conduct additional outreach once the Commission has approved the 2020 All-Source Request for Proposals for Peak Capacity Resources. Upon such approval PSE will attempt to reach additional potential bidders, including nonprofits and under-represented bidders. Additionally, as noted in the attached comment matrices, PSE plans to revise the draft 2020 All-Source Request for Proposals for Peak Capacity Resources to incorporate the equity provisions from the Washington Clean Energy Transformation Act into the public benefits evaluation criteria.

PSE welcomes input from Commission staff or other parties at any time on how equitable impacts or the public benefit evaluation criteria should be considered and applied. PSE anticipates this will be an ongoing topic of discussion and further development in the rulemaking processes under the Washington Clean Energy Transformation Act, as well as the proposed equity advisory group processes that may follow.

PSE appreciates the opportunity to provide responses to the comments filed by staff and other stakeholders on the draft 2020 Demand Response Request for Proposals in Docket UE-200413 and the draft 2020 All-Source Request for Proposals for Peak Capacity Resources in Docket UE-200413. Please contact Nate Moore at 425-456-2622 or Kara Durbin at 425-456-2377 for additional information about these comments. If you have any other questions please contact me at (425) 456-2142.

Sincerely,

/s/ Jon Piliaris

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2020 Demand Response RFP: Summary of Public Comments

July 15, 2020

Docket UE-200413

#	Summary of Comment(s)	RFP Edit?	FAQ? [#]*	PSE Response
Washington Utilities and Transportation Commission (Staff Comments)				
1.1	<p><u>Bidder Qualifications</u></p> <p>PSE requires a minimum of 5 years of load curtailment experience for bidders. However, there may be companies with less experience that can offer services, such as innovative start-ups. This requirement may limit bids from the outset, especially from those trying to get a foothold in the DR market. PSE could remove or revise this requirement; if the bids are insufficient, PSE does not have to select a provider.¹⁰ Revising this requirement may increase equal opportunity throughout the contracting process.</p>	Yes		<p>Puget Sound Energy will contract with vendors that have demonstrated technology, implementation, and financial success. Five years in business has historically been used as benchmark for that success. The language in the Demand Response Request for Proposals can be modified to reflect this concept.</p>
1.2	<p><u>Technical Potential Studies and Data Availability</u></p> <p>PSE is continuing to evaluate the best use cases for demand response, including DR's potential as a non-wires alternative for transmission and distribution investments. While the utility has not captured all potential values in its latest draft of its demand response potential assessment, a component of the 2021 IRP, PSE should help bidders craft a meaningful response to the RFP by providing access or links to the draft and final assessments and the calculated technical potential.</p>	Yes		<p>Puget Sound Energy will make the most current demand response potential assessment available on the Demand Response Request for Proposals website and will reference it in the Demand Response Request for Proposals.</p>

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Washington Utilities and Transportation Commission (Staff Comments)				
	PSE can expect higher quality bids by making information available about customer end uses, current technology being used and considered, and the potential effects on load. Providing bidders with granular information about resource need down to the substation or feeder level when available further enhances this possibility.			
1.3	<p><u>Resource Objectives</u></p> <p>PSE does an adequate job detailing the primary and secondary objectives a DR resource should meet. The company addresses not only the monthly calendar and weekly time windows when a resource can be called but also specifies the lead time and total number of call “events” the winning vendor(s) must be able to support. However, PSE should further specify any relevant capacity availability minimum that may require the utility to provide vendors with additional information about its load profile. For example, peer utilities have specified DR resources must meet a certain percentage of anticipated weekday capacity for holidays given commercial demand is generally reduced during such periods. PSE’s monthly calendar window for calling DR events</p>	Yes		<p>Puget Sound Energy expects to call most demand response events with an hour-ahead notification for meeting winter and summer peak capacity requirements. However, Puget Sound Energy is also likely to call events that require faster response with notification less than ten (10) minutes, primarily to meet non-spinning reserve requirements. Residential and small/medium business customer loads that are directly controlled under the Direct Load Control Program and auto-demand response-enabled loads under the Commercial & Industrial Curtailment Program will be suitable for meeting fast response capabilities.</p> <p>Additionally, Puget Sound Energy prefers a maximum of four hours duration for which a single event may be called in one event per day, and it is not recommended</p>

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Washington Utilities and Transportation Commission (Staff Comments)				
	<p>(i.e., November 1 through February 28/29) includes the Thanksgiving, Christmas, and New Year’s holidays. Any capacity reductions (e.g., 80 percent of typical weekday load) that may apply to those holidays falling on a weekday would offer helpful insight for bidders.</p> <p>PSE calls out the time intervals when it could request DR calls and the maximum number of events anticipated in each season as primary resource objectives, but other desired event characteristics appear to be missing. PSE does not specify its notification interval preference; rather, PSE notes one-hour ahead, two-day ahead, or a combination of both advanced notification intervals as primary objectives. The applicant may surmise PSE prefers vendors that can respond to shorter notice, but the company does not explicitly state its preference, which leaves some ambiguity. The same criticism applies to PSE failing to specify a preferred event duration and/or frequency (e.g., curtailment events on average lasting three hours and occurring for five consecutive days or more). PSE should state its preferences for such attributes as resource objectives. PSE should also clarify whether such</p>			<p>that demand response events be called on more than two consecutive days.</p> <p>Puget Sound Energy will update the Demand Response Request for Proposals with additional detail to address these considerations.</p>

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Washington Utilities and Transportation Commission (Staff Comments)				
	increased dispatch agility demonstrated on behalf of the applicant would translate into a higher bid score (see Evaluation criteria below).			
1.4	<p><u>Evaluation Criteria</u></p> <p>Beyond resource objectives, Staff highlights PSE’s evaluation—or scoring of bids. While PSE plans to measure bidders’ performance and compensation against pre-defined metrics specified during the contract process, it appears that no weighting or emphases are assigned to any of the potential metrics listed. These vagaries stand in contrast to the more prescriptive, ten-page evaluation criteria PSE has put forth for its parallel All-Source RFP.</p> <p>Uncertainties regarding how DR performance will be measured or assessed impacts the outcomes in two distinctive ways. First, such ambiguities may dissuade some vendors from submitting bids. Second, a smaller DR applicant field undergoing a murky vetting process will likely perform poorly against competitive All-Source RFP submissions. If PSE wishes to retain the right to</p>	Yes		<p>Puget Sound Energy recognizes Commission Staff’s concerns regarding potential ambiguity in the proposal evaluation process and is committed to add clarity to the process.</p> <p>Puget Sound Energy will add more details around evaluation criteria weighting to the Demand Response Request for Proposals document to ensure that bidders better understand the approach PSE takes on the quantitative and qualitative screening and review processes.</p>

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Washington Utilities and Transportation Commission (Staff Comments)				
	<p>change its DR scoring criteria during the RFP, it must provide an example evaluation matrix with weighting factors in the final IRP, and it must allow all bidders to update their bids based on any revisions to the evaluation matrix. The inclusion of weighting factors is not a requirement of the Commission's current rule. It is one of the options allowed in the Commission's draft rule. However, after review, Staff believes it would significantly improve the RFP and enable better responses from bidders if PSE quantified the relative weighting criteria outlined in the bidder selection process and proposal evaluation criteria:</p> <ul style="list-style-type: none"> • Demonstrated competence and experience; • Management structure and assigned personnel; • Quality of proposed equipment and services; • Pricing; • Performance guarantees; and • Exhibit D (cost-effectiveness criteria). 			

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Washington Utilities and Transportation Commission (Staff Comments)				
1.5	<p><u>Cost-effectiveness Criteria (Exhibit D)</u></p> <p>RCW 19.405.040(6)(a) states that an electric utility must pursue all cost-effective, reliable, and feasible conservation and efficiency resources, and demand response. For DR to effectively compete with more traditional generating resources, including renewables, PSE could further expand its cost effectiveness criteria listed within Exhibit D of its draft DR RFP filing.</p> <p>The company’s plan to evaluate bids in two ways using benefits and costs as indicated in the Program Administrator Cost (PAC also known as the utility cost test) Test and Total Resource Cost (TRC) Test may lack symmetry (i.e., twice as many costs itemized as benefits) and fails to consider non-energy benefits (and costs) in PSE’s assessment criteria. PSE should include more energy and non-energy impacts and ensure their equitable distribution across populations to bring its DR RFP evaluation criteria more in line with CETA objectives.</p> <p>From the cost-effectiveness criteria listed it is unclear how the costs and benefits will be</p>	Yes		<p>PSE recognizes additional benefits, energy and non-energy, may be considered for inputs into the cost effectiveness calculations. Specifically, the avoided cost of supplying electricity may differ by area, specifically as it relates to transmission and distribution deferral. These avoided costs are generally higher and will be reflected in the utility cost test benefit cost ratio. This will be reflected in the Demand Response Request for Proposals.</p> <p>As part of an ongoing effort to value non-energy benefits PSE, as a condition (#10) from the 2020-2021 Biennial Conservation Plan, Docket UE-190905, is engaging in developing the Equitable Distribution of Non-energy Benefits. This effort includes identifying and valuing non-energy benefits for demand response.</p> <p>As with all Biennial Conservation Plan conditions PSE will consult with the Conservation Resource Advisory Group.</p> <p>These efforts will be concluded in 2021 and the results will be included in future Integrated Resource Plan analyses.</p>

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Washington Utilities and Transportation Commission (Staff Comments)				
	<p>considered. Avoided transmission and distribution costs may be based on the system average or on specific areas of the system where DR may be deployed. Added revenue from deploying DR in conjunction with the energy imbalance market may or may not be included in avoided capacity costs. There are no details on how increased energy consumption would be calculated. These are just a few examples of how it would be difficult for a bidder to craft a bid that would minimize costs and maximize benefits.</p> <p>PSE could depend on various examples to better apply non-energy impacts when evaluating the cost effectiveness of DR bids. For example, regional peer utilities have considered non-energy impacts when developing similar DR programs. Portland General Electric (PGE), through its consultant Navigant, proposed a cost-effectiveness approach for demand response via the Oregon Public Utility Commission’s UM 1708 docket. This framework outlined a number of non-energy (sometimes called non-monetary) benefits, including: participants’ perception of decreased environmental impact, good citizen stewardship via outage avoidance, improved</p>			

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Washington Utilities and Transportation Commission (Staff Comments)				
	ability to manage energy usage, and cultivation of a better (i.e., greener) public image for commercial enterprises. PSE could more holistically assess the DR RFP bids by considering some of these non-energy metrics in its analyses. Hard-to-quantify benefits could be more accurately accounted for using proxy values rather than by treating the value as zero. PSE should begin a stakeholder process to review and assess the nonenergy costs and benefits it will include in its future RFP analyses.			

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Northwest Energy Coalition (NVEC Comments)				
2.1	Will bidders be able to propose projects that aggregate demand response from electric water heaters, including those mandated to have CTA-2045 interface availability as of January 1, 2022?	Yes		Yes. PSE encourages bidders to propose solutions with any available technologies that can meet the identified objectives, across all customer segments. These technologies include, but are not limited to, smart thermostats, water heater communication modules, and behavioral modification. Bidders may propose technologies separately or in combination.

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