

**BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKETS UE-240004 and UG-240005
(Consolidated)

**JOINT ENVIRONMENTAL
ADVOCATES' POST-HEARING BRIEF**

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I. INTRODUCTION

1. PSE, the Commission, and the public find themselves at an inflection point. The transition away from fossil fuels and towards clean electrification is underway, and there is no going back. PSE's gas customer base is shrinking as market and policy trends discourage new gas customers and existing ones shift to electric appliances. The Joint Environmental Advocates (the "JEA"), comprised of Front and Centered, Sierra Club, and NW Energy Coalition, urge the Washington Utilities and Transportation Commission ("Commission") to approve a multiyear rate plan that meets this critical moment by accelerating decarbonization of Puget Sound Energy's ("PSE's") gas and electric systems and setting PSE on a course for a managed, equitable transition.

2. While the shifts to date are encouraging and in line with the state's policy goals, there is one key takeaway from this proceeding: the pace and scale of PSE's transition is nowhere near where it needs to be. Moreover, additional steps are needed to ensure that the most vulnerable members of the community are not left paying for redundant systems and stranded assets. While Washington's climate policy demands transformative action from gas utilities, PSE's application in this proceeding fails to meet this challenge and opportunity. For example, PSE continues to wrongly insist that it bears no responsibility to decarbonize under the Climate Commitment Act ("CCA"), and offers only to tinker on the margins with limited electrification pilot programs. At the same time, PSE asks the Commission to use its discretion to authorize \$77 million per year in accelerated depreciation expense for its gas infrastructure—roughly seven times the budget of its proposed Phase 2 electrification pilot—in the name of advancing a clean energy transition that PSE has yet to meaningfully pursue on its gas system. When confronted

with these contradictions, PSE suggests it will update its approaches to gas system decarbonization in its 2027 Integrated System Plan, without offering any assurances about what that plan will contain or whether it will address the shortcomings identified in this case. In short, PSE seeks to benefit from the clean energy transition without shouldering any responsibility to help bring it about. Plainly, the Commission needs to course correct.

3. The JEA offer three broad principles to assist the Commission in catalyzing the transition of PSE's gas system to one that will satisfy the requirements of state law and meets the needs of the moment, while maintaining reasonable rates. First, the Commission should direct PSE to rapidly scale up its efforts to encourage electrification among its gas customers. The fundamentals of electrification are well demonstrated, and the time for pilot projects is over: in order to meet state law, PSE needs to just get on with it. While the JEA disagree with PSE's estimates of electrification costs, we recognize the need for greater investment in electrification, and propose to make that investment manageable for ratepayers by moderating the pace of accelerated depreciation to align with the scale of PSE's electrification efforts. Second, the Commission should require PSE to evaluate non-pipe alternatives when justifying new investments in gas assets. While safety is paramount, not every length of pipe needs to be fully replaced with another one that financially commits PSE to decades of use and emissions. And the Commission can impose some modest market signals that certain investments related to the expansion of the gas system will be rewarded at a reduced rate, encouraging a close look by PSE before it makes long-term investments in what should be a short-lived system. Finally, the Commission should hold PSE to its promises to ensure that the transition is fair and equitable, by

adopting the recommendations made by PSE’s own consultants and as supplemented by the JEA’s witnesses.

4. The evidence in this proceeding reveals that this Commission needs a firm grasp on the steering wheel of the gas transition. Adopting the JEA’s recommendations will position the Commission and PSE to play their critical roles in a successful, equitable transition.

II. LEGAL STANDARDS

A. Washington Law Requires PSE to Prudently and Equitably Decarbonize its Gas System.

5. State climate law and this Commission’s prudence standard require it to ensure utilities’ plans and investments align with demonstrated pathways to meeting state climate targets, which remain a deeply-engrained priority in Washington’s energy policy. In numerous statutes enacted over several years, the legislature has given “clear direction to reduce greenhouse gas emissions and the use of fossil fuels” in the state’s gas distribution systems.¹ As discussed further below, that direction is reflected in many decisions of this Commission, as well as the regulations, programs, and publications of sister agencies.

6. The State Legislature first enacted statewide decarbonization targets in 2008,² and in 2020 strengthened those targets to include a 45% reduction below 1990 emission levels by 2030 and a 95% reduction by 2050.³ These targets are reflected in the declining statewide emissions cap imposed by the CCA.⁴ Under the CCA’s cap-and-invest program, PSE and other

¹ Wash. UTC, Proceeding No. UG-210729, Order 01, ¶ 27 (Oct. 29, 2021) [hereinafter “Order 01, No. 210729”].

² 2008 Wash. Legis. Serv. Ch. 14 (S.S.H.B. 2815).

³ RCW 70A.45.020.

⁴ RCW 70A.65.060.

covered entities must collectively reduce their emissions to meet the statewide cap, and PSE must compete with other covered entities to purchase allowances for those emissions that it cannot avoid. If PSE reduces its emissions, the number of allowances it must purchase decreases, along with its exposure to the risks and costs of procuring allowances as the statewide emissions cap declines. In November 2024, Washington’s voters overwhelmingly voted in favor of retaining the CCA, by a margin of 62% to 38%.⁵

7. In determining whether to approve a multiyear rate plan for PSE, this Commission must consider whether the actions in PSE’s proposed plan prudently comply with CCA, and whether they advance Washington’s environmental goals more generally. RCW 80.28.425 directs the Commission to ensure that multiyear rate plans are in the public interest, which may include consideration of “environmental health and greenhouse gas emissions reductions, health and safety concerns, economic development, and equity.”⁶ This expanded public interest standard includes compliance with existing legal requirements like the CCA, but also “gives the Commission broad discretion to consider social, economic, and environmental impacts of general rate case filings.”⁷ The Commission should also consider whether the rate case filing aligns with lowest reasonable cost resource planning.⁸ This requires consideration of

⁵ <https://results.vote.wa.gov/results/20241105/initiative-measure-no-2117.html>.

⁶ RCW 80.28.425.

⁷ Wash. UTC, Proceeding No. UE- 230172 (Consolidated), Order 06, ¶ 108 (Mar. 19, 2024).

⁸ See RCW 80.28.425(7) (authorizing the Commission to consider “lowest reasonable cost planning” in implementing performance-based ratemaking, along with factors such as “clean energy or renewable procurement, conservation acquisition, demand side management expansion, . . . attainment of state energy and emissions reduction policies, [and] rapid integration of renewable energy resources,” among others).

any financial risks associated with PSE’s CCA compliance strategy, as well as “risks associated with environmental effects including emissions of carbon dioxide”⁹ Moreover, in applying its prudence and public interest standards, the Commission must also ensure that a multiyear rate plan aligns with the Clean Energy Transformation Act’s (“CETA’s”) clean electricity generation standards and energy equity requirements.¹⁰ As Washington state transitions to a clean energy economy, the public interest includes: “The equitable distribution of energy benefits and reduction of burdens to vulnerable populations and highly impacted communities; long-term and short-term public health, economic, and environmental benefits and the reduction of costs and risks; and energy security and resiliency.”¹¹ In achieving these policies, “there should not be an increase in environmental health impacts to highly impacted communities.”¹² In short, ensuring an equitable gas transition is at the heart of the Commission’s duties in this matter.¹³

B. Initiative 2066 Presents No Barrier to the JEA’s Recommendations.

8. The Commission’s core duty to ensure that PSE prudently decarbonizes its gas system was not affected by the passage of Initiative 2066, which passed by a narrow margin in

⁹ WAC 480-90-238(2)(b) (requiring an IRP’s lowest reasonable cost analysis to address “the risks imposed on ratepayers, ... public policies regarding resource preference adopted by Washington state or the federal government,” and “the cost of risks associated with environmental effects including emissions of carbon dioxide,” among other factors).

¹⁰ RCW 19.405.040(8)

¹¹ RCW 19.405.010(6).

¹² *Id.*

¹³ Order 24/10, No. UE-220066 et al. ¶ 57 (“Following the passage of RCW 80.28.425, the Commission indicated its commitment to considering equity while regulating in the public interest.”); *WUTC v. Cascade Natural Gas Corporation*, Docket UG-210755, Order 10 ¶ 58 (August 23, 2022) (“So that the Commission’s decisions do not continue to contribute to ongoing systemic harms, we must apply an equity lens in all public interest considerations going forward.”)

November.¹⁴ That initiative repeals certain affirmative requirements of House Bill 1589 that PSE’s application in this proceeding was never designed to meet. None of the JEA’s proposals in this proceeding rely on implementation of House Bill 1589, nor does any provision in Initiative 2066—should it survive the anticipated legal challenges—present a barrier to any of the JEA’s recommendations. Rather, this Commission can use its existing ratemaking authority and discretion to adopt the JEA’s recommendations.

9. Specifically, only two provisions of Initiative 2066 are arguably relevant to this rate case.¹⁵ First, Section 2 reiterates gas utilities’ obligation to serve customers who demand gas service and are entitled to receive it under RCW 80.28.110. It is primarily a restatement of existing law known as the obligation to serve. The JEA did not make any recommendation inconsistent with PSE’s obligation to serve. Section 2 does not affect utility programs that encourage voluntary electrification, including all-electric new construction.

10. Second, Section 4 of the Initiative prohibits approval of multiyear rate plans that either require customers to “involuntarily switch fuel use” or that require or incentivize a utility to “terminate” gas service to customers.¹⁶ Again, none of the JEA’s proposals entail any involuntary electrification. Nor do they incentivize—much less require—PSE to “terminate” gas service to existing customers. The term “terminate” is not defined in Initiative 2066 or any other

¹⁴ <https://results.vote.wa.gov/results/20241105/initiative-measure-no-2066.html>

¹⁵ Provisions of Initiative 2066 that are not at issue in this rate case include those affecting municipal gas utilities (Section 3), the State Building Code (Sections 6-8), municipalities and counties (Sections 9-10), and regional air authorities (Section 11).

¹⁶ The initiative’s focus on multiyear rate plans means that its restrictions do not apply to other actions that the Commission might take.

relevant statute, so it must be given its ordinary meaning.¹⁷ The ordinary meaning of “terminate” is “to bring to an end.”¹⁸ Gas service cannot be brought to an end if it did not previously exist, so Section 4’s prohibition does not apply to any measures related to all-electric new construction. Section 4’s reference to “customers,” rather than potential or prospective customers, reinforces this interpretation.¹⁹

11. Thus, the only measures that are even arguably affected by Section 4 are programs and non-pipe alternatives that involve fully electrifying existing customers and disconnecting them from the gas system. As discussed further in Sections III and IV below, where the JEA’s proposals do implicate full electrification of existing customers, they either include heat pumps for space heating as an electrification program,²⁰ or they direct PSE to evaluate electrification as one of several NPA strategies that could meet a future resource need.

¹⁷ *State v. Athan*, 158 P.3d 27, 34 (Wash. 2007) (“When there is no statutory definition to guide us, words should be given their ordinary meaning. Often, we rely on dictionaries to supply the ordinary meaning.”).

¹⁸ “Terminate.” Merriam-Webster.com Dictionary, Merriam-Webster, <https://www.merriam-webster.com/dictionary/terminate>. Accessed Nov. 21, 2024.

¹⁹ If Initiative 2066 had been intended to prohibit utilities from offering incentives that support customers’ choice to adopt electric equipment, it would have used language like that in Article 8, Section 10 of Washington’s Constitution, which prohibits the use of municipal utility funds “for any purpose which results in a conversion from one energy source to another.” Instead, the prohibition in Initiative 2066 extends only to terminating gas service. And Initiative 2066 retains House Bill 1589’s requirements for Integrated System Plans to include low-income electrification programs that include “rebates and incentives ... for the deployment of high-efficiency electric-only heat pumps,” which shows that its drafters did not understand equipment rebates to conflict with the prohibition on incentives to terminate gas service to any customers (including low-income customers). Ballot Initiative 2066, Sections 5(4), 5(12).

²⁰ To be clear, Initiative 2066 does not in any way limit utilities’ ability to offer electrification incentives to their customers. Section 4 prohibits plans that incentivize *utilities* to terminate service to their customers, not plans that include programs offering incentives to *customers* to support their voluntary adoption of efficient electric equipment.

Including electrification on a menu of options is not the same as incentivizing or requiring it. And to the extent the JEA's proposals incorporate evaluation of electrification into requirements for resource planning and justifying investment decisions in the future, that is not the same as directing PSE to actually *terminate* service as part of this multiyear rate plan.

12. Sections 5 and 12 of the Initiative remove certain affirmative requirements adopted in House Bill 1589, including incorporation of electrification programs and non-pipe alternatives analysis into Integrated System Plans, requirements related to accelerated gas asset depreciation, a phaseout of gas equipment incentives, and outreach to consumer-owned utilities where Integrated System Plans include geographically targeted electrification.²¹ These provisions do not apply to this proceeding, which was initiated before House Bill 1589 had passed and which is not related to an Integrated System Plan. Nor do these removals of affirmative requirements themselves constitute prohibitions on actions that House Bill 1589 required—Initiative 2066 included express prohibitory language where such prohibitions were intended but did not use them here.

13. While some of the JEA's proposals in this proceeding are similar to actions contemplated by House Bill 1589, both respond to the same set of circumstances: a need to rapidly decarbonize PSE's gas system to meet state targets, and clear evidence that strategies like voluntary electrification programs and NPAs are part of the lowest-cost, lowest-risk, and most effective pathways to meeting them. None of those circumstances have changed. Indeed,

²¹ Section 5 also prohibits approval of Integrated System Plans that require customers to involuntarily switch fuel use or that require or incentivize a utility to terminate gas service to customers. As discussed above, these prohibitions are not relevant to utility programs that encourage voluntary electrification. Additionally, these prohibitions do not apply to this proceeding, which does not involve an Integrated System Plan.

Washington voters decisively rejected Initiative 2117's attempt to repeal the CCA and its emission cap. Decarbonization remains the mandate of gas utilities and this Commission, and voluntary electrification remains the most effective, policy-aligned pathway to achieving it.

III. THE COMMISSION SHOULD DIRECT PSE TO RAPIDLY ACCELERATE ITS BUILDING ELECTRIFICATION PROGRAMS.

A. This Commission Needs to Offer Clear Direction for a Managed Transition away from Natural Gas.

14. The evidence in this hearing is clear: the transition toward widespread electrification and decreased reliance on burning gas is underway, with PSE's gas demand already declining for both residential and commercial customers.²² This Commission will be responsible for overseeing a managed transition that fairly and efficiently guides the process while ensuring that ratepayers, especially the most vulnerable, do not shoulder more responsibility than they have to. As discussed above, the Commission must ensure that PSE's multiyear rate plans prudently comply with the CCA and advance state environmental policy, which forms a key element of the public interest.

15. A robust body of research and state policy has established that the lowest-cost, lowest-risk pathways to meeting state decarbonization targets require rapid acceleration of building electrification and a managed transition away from the gas system.²³ Washington's State Energy Strategy calls for maximizing electrification, which it finds is lower cost than an

²² McCloy, Exh. LCM-1T at 10:17-23; Steuerwalt, Exh. MS-4T at 16:24 - 17:2 ("It is clear that whether or not I-2066 is approved, there will be increased electrification driven by customer choice and significant state and federal incentives.").

²³ McCloy, Exh. LCM-1T at 11:4 - 14:19; Cebulko, Exh. BTC-1T at 5:3 - 7:3.

alternative fuels-focused decarbonization scenario.²⁴ This Commission’s findings in the Decarbonization Pathways Report are consistent with that strategy.²⁵ And a recent report by Synapse and Climate Solutions concludes that the most effective way to maintain affordability, reduce stranded asset risks, and avoid inequitable outcomes for low-income customers is to immediately deploy key strategies for managing the gas system transition, including several that the JEA have recommended in this case.²⁶

16. In certain respects, PSE appears to recognize the need for investment in electrification and a managed gas system transition. For example, it has proposed a Phase 2 of its electrification pilot (which it acknowledges will play a role in meeting its CCA compliance obligation),²⁷ stated that it is developing a Targeted Electrification Strategy by January 2025,²⁸ and requested to accelerate gas asset depreciation, which would not make sense if PSE did not expect its gas infrastructure to be retired at an accelerated pace.²⁹ But when faced with specific

²⁴ Cebulko, Exh. BTC-1T at 6 n.5.

²⁵ McCloy, Exh. LCM-1T at 11:12 to 13:3; Exh. LCM-3.

²⁶ McCloy, Exh. LCM-1T at 13:4 to 15:12; Exh. LCM-4.

²⁷ Mannetti, Exh. JM-9T at 8:16 - 9:1 (explaining that PSE’s electrification pilot “will help PSE develop holistic strategies to provide safe, affordable and reliable energy to its customers while decreasing greenhouse gas emissions and reducing PSE’s [CCA] compliance obligation for the gas utility.”); *id* at 9:16-20 (“It is PSE’s intent to comply with legal requirements, including the CCA, and to continue making progress towards electrification with approval of its Targeted Electrification Pilot Phase 2. To address Cebulko’s testimony, it is neither the intent of PSE nor consistent with state law to ‘pursue small-scale electrification indefinitely.’”).

²⁸ Mannetti, Exh. JM-1CT at 9:3-5.

²⁹ *See* Allis, Exh. NWA-1T at 20:1-4 (justifying PSE’s accelerated depreciation proposal by observing that “The CCA sets stringent statewide GHG emission reduction targets, eventually resulting in Net Zero emissions by 2050. Because the combustion of methane results in GHG emissions, there will eventually have to be significant reductions in gas usage in order to meet these targets.”); *see also* Allis, Exh. NWA-4T at 18:13-16.

proposals to better align PSE’s investments with the CCA and state climate policy, PSE abruptly changed its tune.

17. For example, PSE continues to insist that because the CCA does not explicitly require specific levels of emission reductions from individual covered entities, the Company bears no responsibility under the law to pursue decarbonization.³⁰ Witness Steuerwalt argues at length that the CCA does not require individual covered entities or sectors to achieve their proportional share of emission reductions needed to meet the CCA’s statewide emissions caps,³¹ and PSE relies on this testimony to oppose the JEA’s recommendation for a general electrification program.³² This argument suffers from two fatal flaws.

18. First, PSE is attacking a strawman. Contrary to Steuerwalt’s suggestion, the JEA have never argued that the CCA requires PSE to strictly meet a proportionate share of emission reductions. Instead, the JEA propose electrification targets that gradually ramp up to levels that are generally aligned with statewide emission caps, recognizing that the CCA provides flexibility to pursue this approach.³³ But the CCA’s flexibility has limits,³⁴ and PSE’s plan to rely almost

³⁰ Steuerwalt, Exh. MS-4T at 30:19 - 31:1 (“[A]ny expectation that individual covered entities or sectors of covered entities would have obligations for direct emission reductions would be counter to the entire theory and practice behind a cap-and-invest (or cap-and-trade) program.”).

³¹ Steuerwalt, Exh. MS-4T at 29:1 - 40:2.

³² Steuerwalt, Exh. MS-4T at 26:17-20; Mannetti, Exh. JM-9T at 9:4-9.

³³ Cebulko, Exh. BTC-1T at 50:6-14; *id.* at 49:1-5 (explaining that setting a 2030 electrification target “provides a firm guidepost that can inform near-term action,” but “also gives PSE some flexibility from year to year”).

³⁴ *See, e.g.*, Steuerwalt, Exh. MS-4T at 38:6-9 (“The legislation ... must provide flexibility, but not a free pass for key sectors and industries.”) (quoting Public Hearing: Senate Bill 5126 – Concerning the Washington Climate Commitment Act before the Washington State Senate Environment, Energy & Technology Committee (Jan. 19, 2021) (Statement of Stu Clark,

exclusively on allowance purchases as a long-term compliance strategy would far exceed those limits. For example, PSE relies on buying well over 25 percent of all available allowances in the years leading up to 2050,³⁵ exceeding the CCA’s purchase limit designed to “protect the integrity of the auctions.”³⁶ PSE argues that it is technically allowed to buy allowances above the purchase limit through Ecology’s containment reserve auction, but does not address the likelihood that these allowances must be purchased at the ceiling price, substantially increasing the cost of compliance, or explain how this strategy is consistent with “the integrity of the auctions.”³⁷ The closely-related CCA tariff docket contains an in-depth discussion of additional reasons why PSE’s do-nothing compliance plan rests on an incorrect reading of the CCA.³⁸

19. Second, PSE neglects the Commission’s duty to ensure that PSE’s CCA compliance strategy is prudent and in the public interest, which goes beyond “mere compliance with existing legal requirements.”³⁹ A hallmark of the Commission’s regulatory duty is to apply flexible standards to specific utility actions,⁴⁰ ensuring they are “prudent,” “just and reasonable,”

Washington Department of Ecology) available at <https://twv.org/video/senate-environment-energy-technology-committee-2021011336/?eventID=2021011336> (starting at 13:52).

³⁵ Cebulko, Exh. BTC-1T at Fig. 5. This figure reflects the 10 percent CCA purchase limit that is in effect until January 1, 2025. Increasing the purchase limit to 25 percent of available allowances would yield a limit of 2.5 million allowances in 2045, when PSE is projected to need over 3 million allowances. The degree to which PSE relies on allowances above the purchase limit continues to increase in later years.

³⁶ RCW 70A.65.100(6). Effective January 1, 2025 pursuant to Senate Bill 6058 (2024), available at <https://lawfilesexternal.wa.gov/biennium/2023-24/Pdf/Bills/Session%20Laws/Senate/6058-S2.SL.pdf?q=20240806115416>.

³⁷ Steuerwalt, Exh. MS-4T at 26:9-10; Popoff, Exh. PJP-1T at 12:8-10.

³⁸ Wash. UTC, Proceeding No. UG-230968 (2024).

³⁹ Wash. UTC, Proceeding No. UE-230172 (Consolidated), Order 06, ¶ 108 (Mar. 19, 2024).

⁴⁰ *ARCO Products Co. v. Wash. UTC*, 888 P.2d 728, 731-32 (Wash. 1995), *en banc* (noting that because the phrase “‘just and reasonable’ is open to a number of different interpretations” and

in “the public interest,” and consistent with “the provisions of the law.”⁴¹ In carrying out that duty, the Commission regularly directs or approves specific actions, including specific pathways for complying with statutory requirements that can be met in multiple ways. It also regularly conditions its approval of utility rates and plans on the utilities taking specific actions to ensure that the approved investments remain prudent.⁴²

20. Indeed, the Commission has an especially important role to play when it comes to compliance with market-based policies like the CCA, given its role as an economic regulator. As a regulated monopoly, PSE is not subject to the market pressures that can be expected to lead non-monopoly businesses to address the compliance costs and risks associated with their emissions. For example, a non-monopoly business may recognize that even if allowance prices are currently low, the statewide emissions cap and the number of available allowances will decrease over time, increasing the cost and risk of an allowance-based compliance strategy. These risks incentivize the non-monopoly business to begin planning and investing to develop its ability to reduce emissions, allowing it to hedge against the risks of an allowance-based strategy and avoid being at a disadvantage to better-prepared competitors. In the absence of clear direction from this Commission, regulated utilities are not subject to the same market pressures.

“can vary according to the context,” courts “give a great deal of deference” to the Commission’s expertise and determinations of what is just and reasonable).

⁴¹ *Willman v. Wash. UTC*, 93 P.3d 909, 913 (Wash. App. 2004); RCW 80.28.010; 80.28.425; 80.28.020.

⁴² *See, e.g.*, Wash. UTC, Proceeding No. UE-220066, UG-220067, UG-210918 (consol.), Order 24/10 ¶ 47 (Dec. 22, 2022) [hereinafter “Order 24/10, No. 220066 et al.”] (approving settlements in PSE’s 2022 general rate case subject to various conditions, including PSE’s demonstration of all offsetting benefits under the Inflation Reduction Act and Infrastructure Investment and Jobs Act when seeking review of provisionally-approved capital investments and power costs).

Because under PSE’s current practice most or all of their CCA allowance costs are passed through to ratepayers, they can be largely indifferent to whether an allowance-based compliance strategy minimizes long-term risk or aligns with state emission reduction targets, as long as the Commission continues to allow cost recovery for CCA allowances and gas system investments. Inaction by Washington’s largest gas utility and one of its largest emitters is inconsistent with the text, structure, and intent of the state’s keystone decarbonization program, and it is up to this Commission to prevent that outcome.

21. Accordingly, in approving a pathway for compliance with the CCA’s decarbonization requirements, the Commission must apply its core ratemaking principles and follow the guidance set forth in state climate law and policy. This body of policy strongly supports a strategy focused on avoiding unnecessary gas system investments, supporting energy efficiency and electrification consistent with consumer choice, and centering equity throughout a managed transition. In other cases, the Commission has reached this conclusion in approving rate case settlement provisions related to limiting unnecessary gas system buildout, advancing electrification, and analyzing non-pipe alternatives, where it found that these provisions were prudent, in the public interest, and calculated to aid CCA compliance.⁴³ A strategy focused on energy efficiency and electrification aligns with the Commission’s duty to approve multiyear rate plans that are in the public interest, which may include consideration of “environmental health and greenhouse gas emissions reductions, health and safety concerns, economic development,

⁴³ See Order 24/10, No. UE-220066 *et al.* ¶ 290 (finding that phasing out PSE’s gas line extension allowance was consistent with the public interest); Order 10/04, No. UE-220053 *et al.*, ¶ 88 (finding that settlement provisions related to gas system decarbonization “will promote prudent planning and, in many ways, will aid Avista’s compliance with the requirements of the CCA”).

and equity.”⁴⁴ By contrast, over-reliance on CCA allowances leaves emission reductions on the table, does not address the environmental health aspects of gas combustion’s indoor and outdoor air quality impacts, and risks an unmanaged, inequitable transition by overbuilding the gas system and postponing action until state decarbonization deadlines are imminent.⁴⁵

22. Moreover, an efficiency and electrification-focused strategy best aligns with the Commission’s standards for prudent investments and lowest reasonable cost resource planning. These standards require consideration of “risks associated with environmental effects including emissions of carbon dioxide,” as well as the financial risks to ratepayers associated with CCA compliance strategies that are likely to be more costly and less effective such as over-reliance on allowances or unproven alternative fuels.⁴⁶ These standards also support plans and investments that minimize costs to ratepayers.⁴⁷ As discussed above, state policy and expert analyses have firmly established a managed electrification approach as the lowest-cost, lowest-risk pathway to decarbonizing Washington’s gas systems in line with state targets. And because implemented non-pipe alternatives are by definition cost-effective compared to the gas infrastructure projects

⁴⁴ RCW 80.28.425.

⁴⁵ PSE recognizes the risks of waiting to act until decarbonization requirements are looming. Hearing Transcript, Vol. II, at 73:21 – 74:20.

⁴⁶ WAC 480-90-238(2)(b) (requiring an IRP’s lowest reasonable cost analysis to address “the risks imposed on ratepayers, ... public policies regarding resource preference adopted by Washington state or the federal government,” and “the cost of risks associated with environmental effects including emissions of carbon dioxide,” among others factors); *see also* RCW 80.28.425(7) (authorizing the Commission to consider “lowest reasonable cost planning” in implementing performance-based ratemaking, along with factors such as “clean energy or renewable procurement, conservation acquisition, demand side management expansion, ... attainment of state energy and emissions reduction policies, [and] rapid integration of renewable energy resources,” among others).

⁴⁷ WAC 480-90-238(2)(a)-(b)

they replace, evaluating all opportunities to pursue those alternatives will facilitate lowest reasonable cost planning and help ensure investments are prudent.

23. Finally, an electrification-focused strategy for gas system decarbonization harmonizes with CETA’s standards for clean electricity generation.⁴⁸ Electrifying gas end-uses already reduces greenhouse gas emissions substantially, and those reductions will only grow as Washington’s electric generation mix continues to get cleaner under CETA.

B. PSE Should Launch a Significantly Scaled-Up General Electrification Program.

1. *Program Proposal*

24. Instead of ambitious decarbonization programs, PSE proposes to implement another modest electrification “pilot,” following up on its Phase I approved by the Commission in the last rate case.⁴⁹ As PSE witness Mannetti explains, the Phase II Pilot would reach roughly 1,000 customers each in 2025 and 2026—accounting for one tenth of one percent of PSE’s customer base.⁵⁰ But as witness Cebulko explains, while there are some worthy ideas in the proposal, the time for relying solely on pilots is over. While the JEA do not oppose spending on the Phase II pilot to study specific questions, it should not be at the expense of implementing an ambitious general electrification program.

25. Specifically, the JEA recommend that the Commission approve a general electrification program for PSE that includes the following elements: (1) PSE’s proposed Phase 2 Pilot programs, as a subset of the programs in the general electrification portfolio;⁵¹ (2) a target

⁴⁸ RCW 19.405.

⁴⁹ Mannetti, Exh. JM-1CT at 15:1 - 16:9.

⁵⁰ Mannetti, Exh. JM-1CT at 22:9 - 23:1, Table 3; Cebulko, Exh. BTC-1T at 42:1-5.

⁵¹ Cebulko, Exh. BTC-1T at 45:20 - 46:3.

of providing incentives for electrification equipment to 182,000 customers by the end of 2030, with interim targets of 7,500 customers in 2025 and 15,000 customers in 2026, and multipliers that adjust how much electrification incentives count toward the targets based on customer and equipment characteristics;⁵² (3) an approved budget of up to \$26.4 million in 2025, and \$43.15 million in 2026;⁵³ (4) a Performance Incentive Mechanism equal to 5 percent of the annual electrification program budget if 100 percent of the target is achieved;⁵⁴ (5) semi-annual progress reports filed with the Commission;⁵⁵ and (6) expanded program eligibility and incentive offerings, specifically including new-construction programs, rebates for customers who install electric equipment while maintaining gas equipment for backup heat, and eligibility for PSE's gas-only and electric-only customers.⁵⁶

26. PSE recommends approval of only its proposed Phase 2 Pilot instead of the JEA's broader proposal.⁵⁷ It offers three main reasons for this recommendation. First, PSE claims that the CCA does not require PSE to actually do anything to reduce its gas system emissions. For the reasons described above, the Commission should reject this overly narrow view. The JEA's proposal represents a prudent approach to CCA compliance that is in the public interest because it could avoid tens of millions of dollars in CCA allowance costs during the proposed multiyear rate plan period alone, and help prevent PSE from running headlong into CCA limits on

⁵² Cebulko, Exh. BTC-1T at 48:16-17, 50:12-14, 52:11 - 53:1.

⁵³ Cebulko, Exh. BTC-1T at 60:4-9.

⁵⁴ Cebulko, Exh. BTC-1T at 51:11 - 52:1.

⁵⁵ Cebulko, Exh. BTC-1T at 54:11 - 52:1.

⁵⁶ Cebulko, Exh. BTC-1T at 57:1 - 58:6.

⁵⁷ Steuerwalt, Exh. MS-4T at 26:17-20; Mannetti, Exh. JM-9T at 9:4-9.

allowance purchases in the future.⁵⁸ The proposal is also designed to ramp up to a level approaching 22,000 customers electrified per year. No party disputes that this level of electrification would produce emission reductions approximately equal to PSE’s CCA compliance obligation. Nor has PSE attempted to offer any explanation of why the amount of electrification proposed in its Phase 2 pilot—an order of magnitude less than the JEA’s proposal—would be consistent with CCA requirements or in the public interest.

27. Second, PSE relies on its decarbonization study to argue that a general electrification program is not cost-effective, compared to a base case of doing little or nothing at all to decarbonize.⁵⁹ But doing nothing to actually decarbonize—which represents the reference scenario in PSE’s decarbonization study and the preferred portfolio in its 2023 IRP—is not a viable option in light of state law and climate targets. Studies that assess *how* to achieve a level of gas system decarbonization consistent with Washington’s statutory climate targets, rather than *whether* to do so, have consistently found electrification to be the most cost-effective pathway.⁶⁰ And as Witness Cebulko explained, the PSE study’s assessment of costs suffers from a number of flaws that inflate electrification costs to make it look less attractive than it really is.⁶¹ In short, the evidence shows that electrification is far more cost-effective than PSE claims.

⁵⁸ Cebulko, Exh. BTC-1T at 13:10 - 16:6, 21:3-21 61:11 - 62:4.

⁵⁹ Steuerwalt, Exh. MS-4T at 26:13-16.

⁶⁰ McCloy, Exh. LCM-1T at 11:4 - 14:19; Cebulko, Exh. BTC-1T at 6:8 - 7:3.

⁶¹ Cebulko, Exh. BTC-1T at 24:17 – 32:17.

28. Finally, PSE suggests that it will revisit the role of electrification programs in its decarbonization strategy in the 2027 ISP.⁶² But electrification and its role in decarbonization pathways are well-demonstrated,⁶³ and PSE has already conducted a successful electrification pilot—not to mention years of demand-side management programs that apply fundamentally similar principles.⁶⁴ We no longer have the need—or the luxury—to await further analysis before taking decisive action. Moreover, Initiative 2066 has repealed several of House Bill 1589’s provisions for consideration of electrification in ISPs.⁶⁵ This does not mean that electrification cannot or should not be evaluated in ISPs. Rather, we should not rely on the ISP process to produce an analysis of electrification that is fundamentally different from the ones PSE has conducted to date.

29. PSE also opposes recommendations by the JEA and TEP to expand PSE’s electrification program eligibility to include PSE’s gas-only and electric-only customers,⁶⁶ even though these customers pay for the programs.⁶⁷ As witnesses Stokes and Cebulko explain, this restriction serves no valid purpose, is contrary to the public interest, and unnecessarily limits

⁶² Steuerwalt, Exh. MS-4T at 28:3-5; Popoff, Exh. PJP-1T at 15:17 - 17:7. AWEC similarly proposes to delay any action on electrification until PSE evaluates decarbonization “on a holistic basis” in its 2027 ISP. Kaufman, Exh. LDK-8T at 6:13-18. As Witness Cebulko’s cross-answering testimony thoroughly explains, such a delay would needlessly set back PSE’s progress implementing this proven, “least regret” resource for meeting decarbonization obligations that pre-date House Bill 1589, making it harder and costlier to meet those obligations through overdue efforts in the future. Cebulko, Exh. BTC-1T at 6:1 - 8:14. Hearing Transcript, Vol. II, at 91:13-17.

⁶³ McCloy, Exh. LCM-1T at 11:4 - 14:19; Cebulko, Exh. BTC-1T at 5:3 - 7:3.

⁶⁴ Mannetti, Exh. JM-1CT at 4-8; Cebulko, Exh. BTC-1T at 40:48:1-14, 55:2-7.

⁶⁵ Ballot Initiative 2066, Section 5.

⁶⁶ Mannetti, Exh. JM-9T at 10:11 - 11:2; Hearing Transcript, Vol. II, at 149:16.

⁶⁷ Stokes, Exh. SNS-1T at 23:4-6.

PSE’s potential for cost-effective electrification projects.⁶⁸ Gas-only customers should remain eligible for all electrification programs.

30. The JEA’s general electrification proposal is consistent with Initiative 2066.⁶⁹ That proposal does not require any customers to involuntarily switch fuels, and it does not incentivize or require PSE to “terminate” gas service to any existing customers. Instead, it involves programs to encourage voluntary electrification. For example, PSE’s proposed targeted electrification program in Duvall (which the JEA recommend approving as an element of a broader general electrification program) avoids a capacity expansion-driven gas infrastructure project by avoiding the load that this project would need to serve.⁷⁰ This is a form of NPA that does not depend on fully electrifying any customers or retiring any existing gas assets, so Initiative 2066 presents no barrier to pursuing it.

31. Likewise, the measures in the JEA’s proposed general electrification program focus on electrifying space and water heating, rather than other end uses.⁷¹ Thus, even the “full electrification” measures that are discussed in witness Cebulko’s testimony and used in his proposed multipliers for electrification targets refer to electrification of heating only.⁷² The JEA’s proposed electrification programs would allow existing customers to continue using gas for other end uses, which PSE suggests many of its customers may choose to do.⁷³ In other

⁶⁸ Cebulko, Exh. BTC-18T at 4; Stokes, Exh. SNS-1T at 19-23.

⁶⁹ *See supra* Section II.B.

⁷⁰ Cebulko, Exh. BTC-1T at 84:1-4.

⁷¹ Cebulko, Exh. BTC-1T at 55:2-5.

⁷² Cebulko, Exh. BTC-1T at 53:1, Table 7.

⁷³ Cebulko, Exh. BTC-1T at 95:8-11.

words, the JEA propose rebates and programs to support installation of certain efficient electric equipment, not to terminate gas service. If customers who accept that rebate end up with no gas equipment and decide to terminate their gas service, they can choose to do so, but this possibility does not convert an equipment rebate into a termination of service.

2. *Cost Recovery*

32. As to the question of recovering electrification costs through trackers, JEA do not object to their use for this rate term. In the future, since electrification will be a core strategy to meet legal standards, those costs should be recovered through base rates. Moreover, electrification costs should be shared evenly between electric and gas customers in this rate case.⁷⁴

33. JEA disagree with AWEC's proposals about how to spread electrification program costs. AWEC wants to exclude Schedule 87T, 449, 459, EITEs, and special contracts from sharing the costs of the electrification program.⁷⁵ But this Commission has recognized that electrification benefits everyone, including those who do not participate directly in electrification programs.⁷⁶ For example, the Commission has previously rejected allowing large customers to avoid contributing to Avista's conservation program, stating that all customers gain benefits when a utility invests in conservation resources.⁷⁷ In that proceeding, the Commission found that all customers benefit, even indirectly when a utility invests in cost-effective conservation

⁷⁴ Cebulko, Exh. BTC-1T at 66:16 – 69:20.

⁷⁵ Kaufman, Exh. LDK-1T at 22:3-7.

⁷⁶ Cebulko, Exh. BTC-18T at 9:5-6.

⁷⁷ Dockets UE-170485 and UG-170486 (Consolidated), UE-171221, and UG-171222 (Consolidated), Order 07 ¶ 250 (April 26, 2018).

resources. Similarly, when a company invests in electrification to comply with CCA, all customers benefit, even if they do not take part in the program. Therefore, it makes sense to spread the costs of the electrification program among all customers.

C. Financial Tools Are Available to Fund Increased Electrification Efforts.

34. While the JEA believe that electrification is far more cost-effective than PSE claims, especially over the long-term, we recognize that it will require investment by PSE. Accordingly, the JEA propose financial tools that will help make these investments manageable for PSE and its customers. In particular, the JEA recommend moderating the pace of PSE's proposal to accelerate gas asset depreciation, reducing other elements of PSE's proposed revenue requirement, and offering a performance incentive mechanism based on achievement of PSE's electrification targets.

1. *Gas Asset Depreciation*

35. First, the Commission should modify PSE's proposal to accelerate the depreciation of gas assets. The JEA agree that ramping up depreciation of gas assets is an important tool in the gas system transition, as it will mitigate rate impacts on future gas customers who may be stuck with paying for under-utilized or stranded gas assets.⁷⁸

Accordingly, the JEA generally support shortening the service lives of its assets, which will mean those assets will be paid off over a shorter period of time. Nonetheless, it is notable that nothing requires that PSE actually retire those assets once they are paid off: under its proposal, it gets the benefits of accelerated recovery, but not the burden of actually retiring them. And

⁷⁸ Gehrke, Exh. WAG-1T at 4:14-16. House Bill 1589 called for accelerated depreciation of PSE's assets, but this Commission has independent authority to approve it even if House Bill 1589 is repealed. *See* Steuerwalt, Exh. MS-4T at 14:14-19, 16:23-24.

nothing prevents PSE from investing in new gas assets while depreciating existing ones more quickly. That is why accelerated depreciation is one of several tools that have to be deployed thoughtfully and simultaneously to manage the gas transition.

36. PSE's proposal to shorten the service lives of its gas assets by ten years is a significant driver of rate increases, adding \$77 million to its revenue requirement in year one. The JEA recommend a somewhat less aggressive approach, ramping up over time but starting with a five-year reduction rather than ten. This scenario results in nearly \$44 million per year in reduced depreciation expenses compared to PSE's proposal, and yields multiple benefits.⁷⁹ First, the JEA's proposal aligns the pace of accelerated depreciation with the scale of PSE's investments in electrification, providing greater assurance that gas assets will be retired at the rate reflected in PSE's depreciation schedule and required to meet state climate targets.⁸⁰ Second, reducing the depreciation expense will reduce the burden of rising rates imposed on PSE's customers, as PSE acknowledges.⁸¹ This will offset the costs of the JEA's proposed additional electrification programs to be recovered through the Schedule 141DCARB tracker, yielding nearly two dollars in ratepayer savings for every dollar of incremental electrification investment in the JEA's proposed general electrification program.⁸² This addresses the concern raised by

⁷⁹ Gehrke, Exh. WAG-1T at 7:3-15.

⁸⁰ Gehrke, Exh. WAG-1T at 7:20 -8:6; Gehrke, Exh. WAG-4T at 4:22 - 5:5; *see also* Allis, Exh. NWA-1T at 20:1-4; Allis, Exh. NWA-4T at 18:13-16.

⁸¹ Hearing Transcript, Vol. II, at 137:8 - 40:22; Martin, Exh. JLM-1CTr at 68:12-14.

⁸² The JEA's proposed general electrification program budget is \$15.75 million greater than PSE's Phase 2 electrification pilot budget in 2025, and \$31.5 million greater in 2026. Cebulko, Exh. BTC-1T at 60:8 Table 8. This yields an average incremental electrification investment of \$23.6 million—roughly half as much as the \$43.8 million in annual revenue requirement reduction from the JEA's depreciation proposal.

TEP witness Stokes that PSE’s accelerated depreciation proposal is “too fast too soon” for PSE’s customers, while still making progress toward accelerating depreciation as electrification efforts ramp up.⁸³

37. PSE opposes the JEA’s depreciation proposal, arguing that it will reduce PSE’s cash flow as the Company prepares to meet CETA obligations.⁸⁴ But PSE’s justification for accelerating gas asset depreciation—facilitating a managed decarbonization transition for the *gas* system—has nothing to do with its obligation to address its *electric* system emissions under CETA.⁸⁵ PSE can of course use the revenue from additional gas asset depreciation expense however it likes, but it is not entitled to receive a certain amount of depreciation revenue just because it has plans to use that revenue for projects unrelated to gas system decarbonization. Nevertheless, the JEA’s proposed performance incentive mechanism offers PSE an opportunity to offset some of the reduction in cash flow from our depreciation proposal, as discussed in Section III.C.3 below.

38. PSE’s only other response to the JEA’s proposal for a more gradual acceleration of gas asset depreciation is that PSE believes its own proposal is gradual relative to the pace of depreciation contemplated by House Bill 1589.⁸⁶ But Initiative 2066 repealed House Bill 1589’s accelerated depreciation requirements, along with many of its provisions for accelerating electrification and gas infrastructure retirement.⁸⁷ Thus, PSE no longer faces “accelerated

⁸³ Stokes, Exh. SNS-1T at 54:9-14.

⁸⁴ Martin, Exh. JLM-1CTr at 68:15 - 69:11.

⁸⁵ Allis, Exh. NWA-1T at 20:1-11.

⁸⁶ Allis, Exh. NWA-4T at 2:12-17, 4:6-12, 6:4-8, 8:4-15.

⁸⁷ Ballot Initiative 2066, Section 12.

depreciation on a tightly compressed timeline with the specter of substantial stranded costs,” as it did with the statutory directive to both eliminate reliance on coal and depreciate Colstrip costs by a date certain.⁸⁸ In the wake of Initiative 2066, a primary determinant of how fast PSE can retire its gas assets—and how fast it is appropriate to depreciate them—is the level of PSE’s commitment to electrification programs.⁸⁹ As discussed above, the JEA’s proposal reasonably balances PSE’s depreciation schedules with its electrification investments.⁹⁰

2. *Revenue Requirement Reductions*

39. The JEA propose adjustments to the revenue requirement that would reduce the impact of increased spending on electrification. These include rejecting PSE’s alternative fuels program, discussed in Section III.D below, and reducing the return on equity for certain gas investments, discussed in Section IV.B. Additionally, the JEA’s proposed general electrification program will reduce the number of CCA allowances that PSE must purchase—and the corresponding cost for its customers—by as much as \$25 million in 2026, and \$44 million in 2027, roughly the amount of the JEA’s proposed 2025 and 2026 electrification program budgets.⁹¹ In other words, the JEA’s electrification proposal could potentially pay for itself in

⁸⁸ Steuerwalt, Exh. MS-4T at 16:10-14; Martin, Exh. JLM-1CTr at 69:15 - 70:7; *see* RCW 19.405.030(1)(a), (2).

⁸⁹ Gehrke, Exh. WAG-4T at 4:22 - 5:5.

⁹⁰ AWEC suggests using a customer count to decide how to allocate increased depreciation costs. The JEA oppose this idea. AWEC’s plan would shift the burden of higher depreciation costs from its customer classes to residential customers. Increased depreciation affects how quickly a utility recovers costs from customers, but it does not change how utility assets are used. Gehrke, Exh. WAG-4T at 11:5-6.

⁹¹ Cebulko, Exh. BTC-1T at 61:18-22.

avoided CCA allowance costs within a year, and could lead to billions of dollars in avoided allowance costs down the road if electrification continues to scale.⁹²

3. *Performance Incentive Mechanism*

40. The JEA recommend that the Commission adopt a performance incentive mechanism (“PIM”) to encourage PSE to meet ambitious electrification targets. As described by witness Cebulko, PSE could be rewarded with a PIM of between 4.5% and 6.5% of its initial electrification budget if it approaches, meets, or exceeds numeric targets of electrified customers.⁹³ Given that electrification is still at an early stage, the JEA are not recommending a “penalty” at this time, though one could be considered in future rate cases. This PIM would give PSE an opportunity to increase its cash flow as noted above, and it would help align PSE’s incentives with state policy goals.⁹⁴ As noted in Section III.B.3 above, this PIM is consistent with Initiative 2066 because it incentivizes PSE to achieve certain levels of electric equipment installation, not to terminate gas service.

D. The Commission Should Reject PSE’s “Alternative Fuels” Spending.

41. PSE proposes to spend \$3 million on an “alternative fuels readiness program” to study the transformation of the pipeline system to handle alternative gases like renewable natural gas (“RNG”) and hydrogen.⁹⁵ PSE has provided little supporting detail on the goals and objectives of this program,⁹⁶ and has not met its burden to justify these unwise expenditures.

⁹² Cebulko, Exh. BTC-1T at 61:22 - 62:4.

⁹³ Cebulko, Exh. BTC-1T at 51-52.

⁹⁴ Cebulko, Exh. BTC-1T at 51:1-9, 53:2 - 54:7.

⁹⁵ Landers, Exh. DJL-1Tr at 26, Table 5.

⁹⁶ Cebulko, Exh. BTC-1T at 33:11 - 34:5.

42. For example, PSE’s initial filing did not identify what projects PSE proposes to implement through the alternative fuels program, “because the projects had not been fully developed at the time of case filing.”⁹⁷ Later in the proceeding, PSE developed project proposals for two projects—a hydrogen electrolyzer for use in electricity generation and a hydrogen pyrolysis project at an industrial customer site—but these proposals still leave key questions unanswered. Among these questions are how or whether the proposed projects have any potential to achieve the program’s stated goal of reducing emissions, because PSE has not estimated the emissions intensity of the hydrogen that its proposed electrolyzer would produce,⁹⁸ or proposed a plan to ensure that this hydrogen meets the “three pillars” of green hydrogen.⁹⁹ PSE has not advanced any evidence that it considered alternatives to the proposed project designs, such as procurement of hydrogen from a third party instead of owning the electrolyzer. Nor has PSE explained how the estimated \$4 million budget for the electrolyzer will fit within PSE’s requested \$3 million for the entire alternative fuels program.¹⁰⁰

43. More importantly, PSE fails to address the many foundational obstacles to deployment of alternative fuels at a scale that would meaningfully advance its decarbonization requirements. Nor does it explain why it would pursue alternative fuels instead of lower-risk, lower-cost, more readily available alternatives like electrification. PSE justifies its alternative fuels spending based on potential applications of alternative fuels in electricity generation and,

⁹⁷ Landers, Exh. DJL-10T at 23:7-9.

⁹⁸ Landers, Exh. DJL-28X.

⁹⁹ Landers, Exh. DJL-27Xr.

¹⁰⁰ Landers, Exh. DJL-12 at 3.

primarily, gas system blending.¹⁰¹ But these fuels have an uncertain future role in electricity generation at best,¹⁰² and they are decisively non-viable as a solution for gas system decarbonization.

44. Even the most generous of the many studies to consider the issue conclude that RNG will not be available in sufficient quantities to meaningfully reduce fossil gas.¹⁰³ There is and will be enormous competition for RNG from other sectors, like transportation, and the costs of procuring RNG are very high.¹⁰⁴ PSE's own IRP forecasts only a tiny amount of RNG in its gas system.¹⁰⁵ As to hydrogen, its role for gas system decarbonization is even more dubious. While hydrogen may present opportunities for decarbonization for certain niche applications in the broader economy, its low density, high costs, its propensity to leak, and health and safety concerns mean that hydrogen is highly unlikely to play any role in decarbonizing the gas system generally.¹⁰⁶ Indeed, a U.S. Department of Energy report relied upon by PSE witness Landers¹⁰⁷ comes to the same conclusion and finds that hydrogen blending will be outcompeted by lower-cost options like electrification in most cases, and that gas system blending is “unlikely to justify

¹⁰¹ Landers, Exh. DJL-1Tr at 42:10-15; Landers, Exh. DJL-6 at 11:6-18, Landers, Exh. DJL-6 Apdx. C at 1-3.

¹⁰² Landers, Exh. 30X, U.S. Department of Energy, Pathways to Commercial Liftoff: Clean Hydrogen, at 22 (“The future role of hydrogen for high-capacity firm and lower-capacity factor power will depend on its economic and technical feasibility, along with continuing policy developments, relative to other low-carbon options.”).

¹⁰³ Cebulko, Exh. BTC-1T at 34:8 – 40:6.

¹⁰⁴ Cebulko, Exh. BTC-1T at 34:8 – 40:6.

¹⁰⁵ Cebulko, Exh. BTC-1T at 37:7.

¹⁰⁶ Cebulko, Exh. BTC-1T at 37:3 – 39:15; *see also* Mannetti, Exh. JM-1CT at 46:7-21.

¹⁰⁷ Landers, Exh. DJL-10T at 24 n.36.

construction / full utilization” of hydrogen electrolysis projects.¹⁰⁸ These findings are consistent with the Washington State Energy Strategy’s conclusion that electrification presents a lower cost pathway to gas system decarbonization than alternative fuels.¹⁰⁹ Moreover, none of the projects in PSE’s proposed alternative fuels program would receive funding through the Department of Energy’s hydrogen hub,¹¹⁰ and gas system blending is not among the hydrogen applications the hub will fund.¹¹¹ This demonstrates both that gas system blending has not shown enough promise to warrant federal support, and that PSE’s alternative fuels program would not advance this Commission’s direction in PSE’s last rate case to leverage available federal and state funding.¹¹²

45. To be clear, PSE does not propose to pursue gas system blending through its alternative fuels program during this multiyear rate plan.¹¹³ And PSE acknowledges that before it could begin any hydrogen blending on its gas system, it would need to develop proposals for addressing several foundational issues including indoor and outdoor air quality impacts of combusting hydrogen blends, compatibility with customer appliances, and notifying and

¹⁰⁸ Landers, Exh. DJL-30X at 62; *id.* at 16 (“For residential uses, hydrogen blends also need to compete with electrification as a decarbonization alternative. Electrification is in most cases less expensive than use of blends, and in many cases it can be an easier to transition home appliances to electricity than it can be to transition them to the use of blends.”); *id.* at 21 (“Multiple competing alternatives (e.g., electrification via heat pumps) leave hydrogen challenged for residential and commercial heating in many regions.”).

¹⁰⁹ Cebulko, Exh. BTC-1T at 6 n.5.

¹¹⁰ Hearing Transcript, Vol. II, at 165:19.

¹¹¹ *See, e.g.*, Jacobs, Exh. JJJ-1Tr at 33:13-17 (noting that the PNWH2 Hub includes support for “green hydrogen for power generation within our service territory,” with no mention of gas system blending); Mannetti, Exh. JM-1CT at 33:17 - 34:1.

¹¹² Order 24/10, No. 220066 et al. ¶¶ 47, 243, 508.

¹¹³ Hearing Transcript, Vol. II, at 182:3-4; Landers, Exh. DJL-29Xr.

engaging with affected customers.¹¹⁴ This has two key implications. First, the uncertainty about whether and how PSE will be able to resolve these issues with gas system blending further undermines PSE's reliance on that blending as a justification for the alternative fuels proposal. Second, if the Commission does approve PSE's alternative fuels program request in this rate case, it must be very clear that this approval does *not* authorize the use of program funds for gas system blending, because PSE has not made the requisite showings to warrant such authorization.

46. In sum, the JEA recommend that the Commission reject PSE's request for even a relatively modest alternative fuels program budget, because PSE has not met its burden to explain how this money will be used and to show that it will meet the Commission's prudence standard by advancing PSE's decarbonization efforts. These funds would be better spent elsewhere on projects that we already know are meaningful and effective. If the Commission does approve PSE's request, it should make clear that such approval does not extend to any gas system blending activities.

IV. THE COMMISSION SHOULD DIRECT PSE TO JUSTIFY NEW INVESTMENTS IN THE GAS SYSTEM.

47. PSE plans to invest \$416.5 million in gas distribution infrastructure over the next two years.¹¹⁵ This is in line with recent historical spending. Although PSE anticipates a sharp decline in customer request spending, due to the phaseout of line extension allowances, it is offset by a sharp increase in gas maintenance costs.¹¹⁶ This continuation of status quo spending

¹¹⁴ Hearing Transcript, Vol. II, at 182:12 – 183:13; Landers, Exh. DJL-29Xr.

¹¹⁵ Landers, Exh. DJL-1T at 26.

¹¹⁶ Cebulko, Exh. BTC-1T at 74:9-15.

fails to reflect the new paradigm in which PSE operates and calls out for direction from the Commission.

A. PSE Should Analyze Opportunities to Avoid Long-Term Investments in the Gas System

48. As this Commission understands, ongoing investments in the gas system create a serious risk that ratepayers will be saddled with underutilized or stranded assets. And it is the most vulnerable members of society that bear the most risk, as wealthier ratepayers pay the up-front costs to electrify and exit the system, reducing the pool of ratepayers left to fund it.

Addressing this problem with existing gas infrastructure is already a challenge, and every dollar PSE spends investing in new or replaced infrastructure only makes solving it harder. That is why the Commission should direct PSE to take steps that will ensure gas system spending is done carefully and that reasonable alternatives are considered. Rejection of conventional pipeline investments and evaluation of non-pipeline alternatives (“NPAs”) are becoming increasingly common in other states.¹¹⁷ This Commission should join them by requiring PSE to better justify full replacement of aging pipe. Specifically, the Commission should require PSE to demonstrate that it considered alternatives to traditional pipeline investments as a condition of recovering additional investments in pipeline and distribution mains that are not emergency repairs.¹¹⁸

49. NPAs can consist of a portfolio of different demand or supply side resources to meet a need without major gas infrastructure investments.¹¹⁹ Examples include demand response, energy efficiency, electrification, behavioral programs, and on-system supply-side

¹¹⁷ Cebulko, Exh. BTC-1T at 80:8 – 85:5.

¹¹⁸ Cebulko, Exh. BTC-1T at 88:16 - 89:2; 104:21 - 105:2.

¹¹⁹ Cebulko, Exh. BTC-1T at 83:5-14.

resources. The evidence presented reveals that they can be effective as well as cost effective: for example, an NPA approach in Duvall cost \$4 million to avoid \$11 million in new gas infrastructure investments.¹²⁰ Zonal electrification is an NPA approach in which sections of the gas system are decommissioned and customers supplied with electric alternatives.¹²¹ While the evidence suggested large scale zonal electrification can be challenging in light of PSE's obligation to serve, there are example of success stories like Colorado's Pearl Street Mall.¹²² And zonal electrification can be pursued successfully at small scales with only a handful of participants.¹²³

50. As the testimony during the hearing revealed, there are many options available besides just replacing an aging pipe with a new one capable of serving for the next sixty years. For example, repairs can be just as effective in the short term and cost far less.¹²⁴ The shorter depreciable life of a repair may better match its "useful" life, and its costs may be in harmony with its benefits in a rapidly decarbonizing gas utility.

51. Massachusetts recently imposed a requirement on gas utilities to consider NPAs and document their findings before they could recover new gas system investments.¹²⁵ Colorado, Rhode Island, New York, and Oregon have all established similar standards for investments above a certain threshold. This Commission should follow these examples. Considering

¹²⁰ Cebulko, Exh. BTC-1T at 84:1.

¹²¹ Cebulko, Exh. BTC-1T at 85:8-16.

¹²² Hearing Transcript, Vol. III, 339:9-13.

¹²³ Cebulko, Exh. BTC-1T at 87:8-16

¹²⁴ Cebulko, Exh. BTC-1T at 81:15 -82:11.

¹²⁵ Cebulko, Exh. BTC-1T at 84:10.

alternatives is a time-tested hallmark of prudent decision making. While the process may find that in the short term relatively few projects are suitable for NPAs, over time this approach will help avoid additional investments in soon-to-be stranded or underutilized assets.

52. To be clear, the JEA's proposal would not require PSE to do anything that it cannot do: PSE already conducts NPA analysis in some instances,¹²⁶ and does not dispute that it is capable of doing so.¹²⁷ Instead, PSE opposes the JEA's recommendation based on its assumption that NPAs will not meet resource needs in many cases. But that misses the point: if NPA analysis were only performed for projects where the utility already expected the NPA to succeed, the analysis would not reveal any new information about how best to structure and deploy NPAs, or help identify overlooked NPA opportunities. PSE concedes that the NPA analyses it has done to date have provided valuable information, even if not all of them have led to NPAs being pursued.¹²⁸ The JEA's proposal would bring transparency and regularity to ensure that PSE's existing process is applied as effectively as possible.

53. PSE also argues that the JEA's NPA proposal is unnecessary due to House Bill 1589's framework for assessing the use of NPAs in Integrated System Planning.¹²⁹ As witness Cebulko explained at hearing, the JEA's proposal differs from the House Bill 1589 framework because it applies to developing the business case to support PSE's investments, rather than

¹²⁶ Landers, Exh. DJL-10T at 34:10-13, 39:7-8, 40:4-6; Landers, Exh. DJL-24X; Landers, Exh. DJL-3 (Apdx. J) at 13.

¹²⁷ Landers, Exh. DJL-23X.

¹²⁸ Hearing Transcript, Vol. II, at 181:1-6.

¹²⁹ Landers, Exh. DJL-10T at 3:10-14.

resource planning.¹³⁰ The Commission has made clear that justifying investments and resource planning are separate undertakings. Moreover, Initiative 2066 repealed House Bill 1589's requirements related to NPA analysis in an integrated system plan,¹³¹ which means the only way the Commission can be sure NPAs will receive serious consideration is to approve the JEA's proposal in this case.

54. The JEA's NPA proposal does not rely on House Bill 1589, and approving the proposal is consistent with Initiative 2066. As described by witness Cebulko, the JEA's NPA proposal is justified by the need to identify the options for meeting PSE's delivery system needs that minimize stranded asset risk and that are best aligned with Washington state policy, including the CCA.¹³² The passage of Initiative 2066 does not alter this need to identify the lowest-risk, most policy-aligned alternatives. Nor does it prohibit consideration of non-pipe alternatives in justifying future investment decisions. As discussed in Section II.B above, directing PSE to analyze NPAs in justifying future investments is not the same as requiring involuntary electrification or incentivizing PSE to terminate gas service in this multiyear rate

¹³⁰ Hearing Transcript, Vol. III, at 337:8-19.

¹³¹ Ballot Initiative 2066, Section 5(4).

¹³² Cebulko, Exh. BTC-1T at 76:14 - 79:11, 80:1-5, 88:1 - 90:10. PSE argues that many of its gas infrastructure projects are "non-discretionary," meaning PSE undertakes the projects to meet regulatory requirements or in response to factors outside of PSE's control such as public improvement projects. Landers, Exh. DJL-10T at 5:6 - 6:4. But just because PSE lacks discretion over *whether* to meet these requirements does not mean that it likewise lacks discretion over *how* to meet them. PSE does not dispute that it can and often does evaluate NPAs as an option for meeting non-discretionary resource needs, and the JEA simply propose that it be required to do so. Hearing Transcript, Vol. II, at 175:11 - 181:6; Landers, Exh. DJL-23X ("In the case of "Planned" non-discretionary investments, PSE has the ability to evaluate alternatives and may have some flexibility in timing and ability to manage annual spend."); Landers, Exh. DJL-24X; Landers, Exh. DJL-26X.

plan. And the repeal of House Bill 1589’s affirmative requirements to consider NPAs in Integrated System Planning does not prohibit PSE from conducting that analysis, or the Commission from directing it.

B. The Commission Should Utilize Financial Incentives to Support Gas System Transition.

55. A requirement to consider alternatives before recovering gas system investments can be coupled with other financial tools to incentivize PSE to take a more proactive approach to the gas transition. Traditional cost of service regulatory structure incentivizes infrastructure investments of any kind, including investments in gas infrastructure that are contrary to the public interest and that create financial risk to ratepayers. Accordingly, the Commission should reduce the return on equity for projects that collide with public policy, such as gas capital investments that grow or unduly maintain the gas system. Such an approach is consistent with the legislature’s direction to develop “performance based ratemaking” tools that would better align utilities’ financial interests with state policies and the public interest.¹³³ This modest change will incentivize PSE to consider whether funds would be better deployed to projects with a higher ROE, like electrification. Specifically, the JEA recommend setting the return on equity for customer request and capacity expansion projects at 0.75 percent lower than approved ROE for all other investments.¹³⁴

¹³³ Docket U-210590, *Interim Policy Statement Addressing Performance Measures and Goals, Targets, Performance Incentives, and Penalty Mechanisms* (April 12, 2024).

¹³⁴ Cebulko, Exh. BTC-1T at 102:17-19.

56. The Commission heard testimony that PSE does not have the ability to control its customer choices.¹³⁵ To be sure, PSE cannot unilaterally cut someone off from the gas system. But PSE is not a helpless bystander. It has considerable leeway to incentivize customers to pursue options other than connecting to the gas system, and a considerable toolbox of alternative approaches that can satisfy gas needs without necessarily building new mains with decades-long lifespans. PSE controls its investments, program designs, and marketing.¹³⁶ Indeed, utilities' ability to influence customer behavior is the premise underpinning time-tested conservation programs that include targets approved by the Commission, as well as the demand response PIM that PSE has proposed in this proceeding.¹³⁷ These financial incentives will encourage it to use its toolbox more assertively to align with state policy and climate goals. Moreover, reducing the ROE for gas customer requests and capacity expansion projects will not penalize PSE, both because PSE has the ability to influence customer decisions and because the JEA have proposed an electrification PIM that would allow PSE to earn an incentive for successfully investing in programs that align with Washington's clean energy goals.¹³⁸

¹³⁵ Martin, Exh. JLM-1CTr at 28:1 - 30:6.

¹³⁶ Cebulko, Exh. BTC-1T at 101:5-13.

¹³⁷ *See, e.g.*, RCW 80.28.380 (providing that each gas utility must establish a conservation target every two years, which must be based on a conservation potential assessment prepared by an independent third party and approved by order of the Commission).

¹³⁸ This ROE proposal is consistent with Initiative 2066. As discussed in Section II.B above, the Initiative prohibits multiyear rate plans that incentivize utilities to terminate gas service to existing customers. New customer requests do not involve existing customers whose service can be terminated, but prospective customers who Initiative 2066 does not affect. Similarly, gas capacity expansion projects can be avoided in multiple ways that do not involve terminating gas service to existing customers—as PSE's proposed Duvall NPA demonstrates—so reducing PSE's ROE for these projects does not constitute an incentive to terminate service.

V. PSE SHOULD CENTER EQUITY IN ITS DECISIONMAKING.

57. One consistent through-line in the evidence before the Commission in this matter has been the urgency of ensuring that PSE’s transition to meet the state’s energy and climate targets is carried out equitably. “Energy justice” is a core value driving the decisionmaking in this matter. “Energy justice is the work of ensuring that everyone can enjoy the benefits of a good energy system, recognizing that the work will require a significant investment in addressing the legacy and reality of systemic racism and disenfranchisement in every component of that system.”¹³⁹ Fortunately, there no longer appears to be much dispute about the fundamentals—no party disputed JEA’s powerful testimony regarding the importance of centering energy justice.

58. Before getting to the granular details of JEA’s recommendations, we urge the Commission to carefully consider the input from representatives of frontline communities, as expressed in the testimony of Charlee Thompson and Mariel Thuraisingham. Their testimony outlines the profound structural inequities embodied in the energy system and its deep roots in systemic racism, for example, the legacy of racist practices like redlining.¹⁴⁰ It is imperative that utilities like PSE name and understand this legacy, which starts with collecting data and carefully designing interventions to overcome it. It calls for greater scrutiny when utilities like PSE seek to build controversial projects with adverse impacts (for example, fossil fuel generation or hydrogen combustion projects) that advance the company’s bottom line at the potential expense of community well-being. And it calls for fresh thinking about alternative approaches to meeting

¹³⁹ Thuraisingham-Thompson, Exh. MT-CT-1T, at 4:14-16.

¹⁴⁰ Thuraisingham-Thompson, Exh. MT-CT-1T at 6:7 – 7:11.

energy needs—for example retrofits and weatherization—that provide health and economic benefits along with their energy advantages.¹⁴¹

59. The JEA recognize that PSE has made strides in building trust with communities of color and that there has been improvement.¹⁴² Additionally, the JEA appreciate the considerable work that PSE has done to make progress on the conditions stemming from its 2021 Clean Energy Implementation Plan (“CEIP”) after the adjudication process. In particular, the JEA applaud PSE’s engagement of expert Monica Martinez and its evident recognition that “coordination and improvements across both internal processes and teams along with its communities and customers are necessary to effectively move the utility forward,” as reflected in the testimony of Troy Huston.¹⁴³ The JEA urge the Commission and PSE to implement witness Martinez’s specific recommendations.¹⁴⁴

60. Overall, the JEA urge this Commission to continue to prioritize equity in evaluating this ratemaking request to ensure that PSE continues to advance a just energy transition. And it recommends that the Commission assess PSE’s application of procedural, distributive, restorative, and recognition justice in its request for rates. What follows are the JEA’s other specific recommendations to address equity in this docket and how the Commission should respond.

¹⁴¹ Thuraisingham-Thompson, Exh. MT-CT-1T at 10:8-22.

¹⁴² Thuraisingham-Thompson, Exh. MT-CT-1T at 15:14-21.

¹⁴³ Thuraisingham-Thompson, Exh. MT-CT-1T at 17:18 – 18:2.

¹⁴⁴ JEA recommend one modification to Martinez’s recommendations, specifically, that “the UTC should provide specific guidance in this rate case as well as in the Equity docket.” Thuraisingham-Thompson, Exh. MT-CT-1T at 21:17-19. PSE explained why it disagrees with this modification and in the spirit of cooperation JEA withdraw it.

61. Improving PSE’s Energy Burden Analysis: The JEA recommend that PSE include customers with fewer than twelve months of usage data into its energy burden analysis (“EBA”), to address the fact that housing instability excludes many impacted ratepayers from its analysis. The JEA proposes a cutoff of either three or six months. The Energy Project witness Roger Colton supports the JEA’s recommendation, with a modest modification that “PSE work with agency members of the [low income advisory committee] in developing an appropriate mechanism by which to impute energy consumption to households with an incomplete billing history.”¹⁴⁵ The JEA agree with this proposal. PSE indicated its openness to adopting the JEA’s recommendation.¹⁴⁶ Thus, the Commission should order PSE to include customers with either three or six months of usage data into its energy burden analysis and to work with its low-income advisory committee to develop a method to assign energy consumption estimates to households with incomplete billing history.

62. Second, the JEA recommended that PSE simulate energy burden over time as a function of factors that increase customer bills: in other words, to project forward so that problems can be addressed before they emerge.¹⁴⁷ PSE expressed some concerns with this recommendation, observing that “without a grounded set of modeling inputs, there are too many variables inherent in a forward looking EBA to develop a reliable forecast at this time.” The JEA appreciate PSE’s consideration of this issue and accordingly withdraw the recommendation for now. However, we urge PSE to continue thinking through some of the data needed to project

¹⁴⁵ Colton, Exh. RDC-3T at 4:9-14.

¹⁴⁶ Jhaveri, Exh. BDJ-4T at 12:5.

¹⁴⁷ Thuraisingham-Thompson, Exh. MT-CT-1T at 24:3-13.

future energy burden and to observe trends from annual EBA updates to proactively determine if energy burden reduction is sufficient across different communities.

63. Pilot distributional equity analysis: The JEA support Staff’s assessment that PSE has not yet complied with condition 50 (pilot distributional equity analysis) of the settlement in the previous general rate case. Specifically, PSE has not applied its developed DEA methodology to the entire 80 MW of the distributed solar portfolio that it had agreed to in condition 50. The JEA support Staff’s proposed next steps, which ask PSE to submit a plan and timeline that details how the DEA methodology will be applied to the full DER portfolio. The Commission should very clearly provide guidance to PSE that the Company must comply with condition 50 and file a strategy and timeline to do so in dockets UE-220066/UG-220067. Additionally, Staff witness Franks recommends that PSE conduct a DEA on its targeted electrification pilot, which is expected to be completed in early 2025. PSE raises the concern that the DEA would be redundant as PSE plans to evaluate the pilot after phase 1 and phase 2 to determine barriers to heat pump adoption to low-income, named, and energy burdened communities. The JEA agree with PSE’s concern and believe that a DEA could be considered after the phase 1 and 2 evaluations are completed.

64. Updates about DER Public Engagement Pilot: The JEA recommended that PSE provide additional information and updates about its distributed energy resources (“DER”) pilot project. Specifically, the JEA suggested that “PSE provide updates and information about its pilots — time varying rate pilot, distributional equity analysis pilot, and targeted electrification pilot— on its website and other public-facing platforms and communications for easy customer

access.”¹⁴⁸ PSE offered to “explore the feasibility and customer interest of providing this content on its website” but did not make any commitments. The JEA continue to believe that this is a modest request that will provide value to customers. PSE should, at a minimum, list what pilots are happening, what the purpose is, and what the timeline is. PSE already offers some information about its TOU pilot on its website (including the purpose, how to enroll, and FAQs),¹⁴⁹ but does not have information about the timeline of the pilot or similar information for its other pilots. As PSE often conducts multiple pilots concurrently, pilot information would be more accessible to customers if it could be found on a single webpage. This allows customers to learn about what their utility is doing and how they may be able to participate without already having to know that a pilot exists to learn more about it. Or PSE could list all pilots related to a specific topic on a single webpage for that topic, as is the approach of Southern California Edison¹⁵⁰ or Ameren Illinois.¹⁵¹

65. Demographic Data Collection: The JEA recommended in their responsive testimony that PSE collect more demographic data on customers for “identifying and addressing disparities, informing program design and improvement, and measuring impact across different groups.”¹⁵² PSE expressed openness to this recommendation but also concerns. It proposed to start with a pilot program to begin collecting such data that can be separated from other

¹⁴⁸ Thuraisingham-Thompson, Exh. MT-CT-1T at 27:6-9.

¹⁴⁹ <https://www.pse.com/en/account-and-billing/time-of-use>.

¹⁵⁰ SCE has a “Pilot Programs” webpage for pilots related to “Electric Vehicles for Businesses”. <https://www.sce.com/evbusiness/pilot-programs>.

¹⁵¹ Ameren Illinois has a “Programs & Incentives” webpage for pilots related to “Electric Vehicles”, <https://www.ameren.com/illinois/business/electric-vehicles/incentives>.

¹⁵² Thuraisingham-Thompson, Exh. MT-CT-1T at 31:17 – 33:10.

information to ensure anonymity. The JEA support PSE's proposal and recommend that PSE update the LIAC on its progress and on a timeline for this work.

66. Base Rate Reforms: In testimony focused on looking forward, the JEA offered a recommendation to consider reforms to base rates themselves to make bills more affordable for customers with lower incomes in the form of an "income-graduated fixed charge."¹⁵³ Not surprisingly, there were concerns expressed about the lack of detail about this. The JEA understand that this was not a fully fleshed out proposal but sought to elevate the issue for consideration and future application. The JEA look forward to exploring this issue more in future dockets with a broader constituency of customer advocates and interested parties.

67. Penalty Performance Incentive Measures: The JEA uphold their position on PIMs as was raised in their initial testimony.¹⁵⁴ In cross-answering testimony, witness Koenig says that "Staff does not object to the inclusion of a penalty mechanism within the DR PIM"¹⁵⁵ and "believes that a similar type of flat penalty for underperformance [as recommended by witness Cebulko for an electrification PIM penalty] could be used within PSE's DR PIM."¹⁵⁶ While the JEA did not offer specific recommendations on implementation of a DR PIM penalty mechanism in testimony, the JEA agree with Staff that this is reasonable.

68. Streamlining Rate Case Burdens: PSE's application to the Commission involved an unprecedented number of witnesses, each of whom sponsored numerous exhibits that in many

¹⁵³ Thuraisingham-Thompson, Exh. MT-CT-1T at 37:7 – 38:2.

¹⁵⁴ Thuraisingham-Thompson, Exh. MT-CT-1T at 38:5 – 40 :9.

¹⁵⁵ Koenig, Exh. PK-6T at 9:6.

¹⁵⁶ Koenig, Exh. PK-6T at 9:1-2.

cases involved additional testimony. The JEA question whether this excessive paperwork was truly necessary to make its case, as such an overwhelming amount of information has a chilling effect on public participation—to say nothing of the burdens on the Commission itself. The JEA urge the Commission to provide some direction to PSE to seek opportunities to present a more manageable filing. In the future, additional funding for public participation may be necessary to manage the burdens of sifting through such voluminous materials.

VI. OTHER ISSUES

A. The Commission Should Evaluate CWIP Requests on a Case-by-Case Basis

69. PSE has requested approval from the Commission for financing certain investments under a “Construction Work in Progress” (“CWIP”) in rate base method. PSE wants to transition to CWIP for certain CETA projects, which will enhance its financial position and reduce borrowing costs. This approach allows PSE to recover construction costs for projects before they are finished, contrary to the typical way of recovering such costs only once they are placed into service.¹⁵⁷ CWIP is an unorthodox approach because it shifts risks to ratepayers, who are put in the role of financing projects that may be delayed or even never completed.¹⁵⁸ One such example occurred in Georgia, where the legislature authorized CWIP financing for the Vogtle nuclear power plant. The plant took 14 years to build and was subject to numerous cost overruns, all of which were borne by ratepayers rather than the company.¹⁵⁹

¹⁵⁷ Gehrke, Exh. WAG-1T at 9:5-10.

¹⁵⁸ *Id.* at 11:1-22.

¹⁵⁹ *Id.*

70. At the same time, the urgency of the energy transition calls for a nuanced approach to project financing and opportunities to incentivize certain projects. That’s why the JEA support a project-by-project assessment of such requests rather than the general up-front authorization requested by PSE. The JEA propose a series of factors to weigh for each project before authorizing CWIP in rate base treatment, including how well the project is aligned with state public policy, the impacts on customers, and the project’s viability.¹⁶⁰ For similar reasons, the JEA support PSE’s proposal for a “Clean Generation Resource Rate Adjustment.”¹⁶¹

B. PSE’s Demand Response Request

71. In light of the urgency of standing up new clean energy resources, the JEA have embraced some of PSE’s proposals that offer them additional incentives and flexibility to meet the requirements of CETA by improving their financial outlook. With respect to PSE’s requests related to power purchase agreements, the JEA’s support is qualified.¹⁶² While the JEA support a finding of prudence for the requested PPAs, the Commission should not allow PSE to “double dip” on incentives for the same resource. Accordingly, the JEA propose authorizing and extending the demand response PIM with modifications, but not authorizing the return on PPA for demand response resources.¹⁶³ Additional details are provided in the testimony of Lauren McCloy.

¹⁶⁰ Gehrke, Exh. WAG-1T at 15:1 -16:12.

¹⁶¹ Gerhke, Exh. WAG-1T at 16:14 – 17:8.

¹⁶² McCloy, Exh. LCM-1T at 15:21 – 16:4.

¹⁶³ *Id.*

VII. CONCLUSION

72. For the foregoing reasons, the JEA respectfully urge the Commission to adopt its recommendations, which are summarized as follows:

- Direct PSE to align its CCA compliance strategy with prudent and equitable achievement of the CCA's statewide emission targets.
- Approve a general electrification program with the budget, customer engagement targets, and elements proposed by the JEA.
- Approve PSE's request to recover electrification costs through a tracker in this proceeding, but re-evaluate whether to move electrification costs into base rates in the future. Split electrification costs evenly between gas and electric customers. Reject AWEC's proposal to exclude Schedule 87T, 449, 459, EITEs, and special contracts from sharing the costs of the electrification program.
- Approve the JEA's proposal to accelerate depreciation of PSE's gas assets at a more moderate pace than PSE has proposed, in line with the scale of PSE's investment in electrification.
- Reject AWEC's proposal to allocate increased depreciation costs by customer count.
- Approve the JEA's proposed Performance Incentive Mechanism to align PSE's financial incentives with advancing electrification and decarbonizing its gas utility.
- Deny PSE's proposed alternative fuels readiness program. At minimum, clarify that no funding approved through the alternative fuels readiness program may be used for blending alternative fuels into PSE's gas distribution system.
- Require PSE to demonstrate that it considered alternatives to traditional pipeline investments as a condition of recovering additional investments in pipeline and distribution mains that are not emergency repairs.
- Set PSE's ROE for gas customer request and capacity expansion projects at 0.75 percent lower than approved ROE for all other investments.
- Direct PSE to include customers with fewer than twelve months of usage data into its energy burden analysis.
- Direct PSE to submit a plan and timeline that details how the DEA methodology will be applied to the full DER portfolio, as proposed by Staff.

- Direct PSE to conduct a DEA on its targeted electrification pilot, as proposed by Staff.
- Direct PSE to provide additional information and updates about its distributed energy resources (“DER”) pilot project.
- Approve PSE’s proposal to conduct a pilot program to begin collecting more customer demographic data, and direct PSE to update the LIAC on its progress and timeline for this work.
- Approve a DR PIM penalty mechanism, as proposed by Staff.
- Direct PSE to seek opportunities to present a more manageable filing in future rate cases.
- Approve CWIP on a project-by-project basis.
- Authorize and extend the demand response PIM with modifications, but do not authorize the return on PPA for demand response resources.

Dated this 4th day of December, 2024.

Respectfully submitted,

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