

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of Puget Sound Energy
2022 Draft Request for Proposals for
Distributed Energy Resources**

DOCKET UE-210878

**COMMISSION STAFF COMMENTS REGARDING
EVALUATING AND SELECTING
RESOURCE OPTIONS UNDER
RCWs 19.405, 19.280 and WAC 480-107**

December 30, 2021

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Introduction

On November 15, 2021, Puget Sound Energy (PSE or Company), filed with the Washington Utilities and Transportation Commission (Commission) Draft Distributed Energy Resources (DER) Targeted Request for Proposals (RFP) in Docket UE- 210878.

The Commission's revised acquisition rules require that when a utility files an integrated resource plan (IRP) that identifies a resource need within the following four years, the utility must file a proposed RFP and accompanying documentation with the Commission within 120 days.¹ PSE filed its 2021 integrated resource plan (IRP) with the Commission on April 1, 2021, in Dockets UE-200304 and UG-200305.

PSE filed two (2) RFPs with the Commission, seeking market solutions to satisfy near term resource need identified in the IRP, Clean Energy Action Plan, and final Clean Energy Implementation Plan.² On June 3, 2021, the Commission issued an order approving PSE's Draft All Source Request for Preproposals.³ On June 30, 2021, PSE issued its 2021 All-Source Request for Proposals, for resources to meet all or part of PSE's capacity and/or CETA needs.

PSE's second, targeted DER RFP also requires Commission approval.⁴ On November 19, 2021, the Commission issued a Notice of Opportunity to Provide Written Comments on the targeted Draft DER RFP. Consistent with WAC 480-107-017, the public participation schedule includes a 45-day period for public review and comments, and a 75-day period for the Commission to deliberate.

PSE's DER RFP is currently scheduled for Commission decision at the Commission's Open Meeting to be held on Thursday, January 27, 2022, to ensure PSE's draft RFP satisfies its public service obligations. The Commission will consider the information obtained through these bidding procedures when it evaluates the performance of the utility in rate and other proceedings.

¹ WAC 480-107-017(1) and 480-107-009(2).

² See Docket UE-210795 and Docket UE-210878.

³ *In re Petition for an Order Approving Proposed Request for Proposals*, Docket UE-210220, Order 01 (June 14, 2021) (Approving Revised Draft All-Source Request for Proposals Subject to Conditions).

⁴ WAC 480-107-017(4).

Background

Resource Need

In the current planning and RFP dockets, PSE forecasts a need for new electric resources in the amount of **369 MW in 2026**, as identified in its 2021 All Generation Source RFP, and is expected to increase to **527 MW before 2027**.⁵ PSE filed its first clean energy implementation plan (CEIP) with the Commission on December 17, 2021. In its CEIP, PSE projects a specific resource need of at least 129 MW of *additional, operational* distributed energy resources needed by no later than December 31, 2025, as identified in Table 1 below.⁶

Table 1: Incremental Distributed Energy Resource Additions

DER Type	Incremental Resource Additions (MW)			Total (MW)
	2022-2025	2026-2031	2032-2045	
Battery Energy Storage	25	175	250	450
Solar	80	180	420	680
Demand Response	24	167	21	212
Total	129	522	691	1,342

For the next four years, PSE’s IRP modeling shows DERs as a growing part of PSE’s electricity resource portfolio to achieve targets at the lowest reasonable cost. Staff commends PSE for addressing diverse resource acquisitions in the Company’s first targeted DER RFP under the Commission’s new acquisition rules. This important next step will provide necessary insight into potential DER solutions to achieve clean energy transformation targets, including meeting or exceeding the following goals by 2025:

- **Solar (80 MW)** – The solar resources may include ground and rooftop installations and (1) behind-the-meter and (2) front-of-the-meter resources. Solar bids can be for power purchase agreements or ownership.
- **Battery (25 MW)** – Battery storage bids can be pay-for-performance contract or ownership.
- **Demand Response (24 MW)** – Demand response (DR) bids can be pay-for-performance contracts. PSE requires no minimum size threshold for DR and allows bids for standalone or aggregated resources.⁷ Among other requirements for DR, PSE’s secondary objectives include potential year-round scheduling options by bidding DR into CAISO’s Energy

⁵ Puget Sound Energy’s Final 2021 Clean Energy Implementation Plan, Docket UE-210795, p. 121.

⁶ Puget Sound Energy’s Draft 2022 Distributed Energy Resources Request for Proposals, Docket UE-210878, “PSE-2022 DER RFP-Draft Main”; p. 4, Table 2: PSE’s CEIP Incremental DER Additions through 2045 (filed Nov. 15, 2021) (2022 Draft DER RFP).

⁷ *Id.* at 14.

Imbalance Market (Western EIM), following Western EIM performance requirements.⁸

Independent Evaluator

In February 2021, after receiving approval from the Commission in Docket UE-210037, PSE hired Bates White to provide independent evaluator (IE) services for the 2021 All-Source RFP. In this RFP PSE retains the option of utility ownership, so in accordance with WAC 480-107-023(1), the Company was required to enlist IE services. Bates White continues to serve as the IE for this Draft 2022 DER RFP to ensure evaluation consistency and that PSE's RFP process is conducted fairly, transparently, and properly.

Staff assessment of PSE's Draft 2022 Request for Proposals for DERs

Staff's review is guided by rule and statute, including the recently promulgated rules in WAC 480-107. Staff provides recommendations to improve the RFP to ensure fair criteria and procedures for evaluation, technology neutrality, and that all customers are benefiting from the transition to clean energy in compliance with RCW 19.280.030 and 19.405.040. Staff identified potential areas of concern regarding possible modifications to the RFP and recommends transparency as the RFP process proceeds.

Virtual Power Plant and SCADA Control

On March 25, 2021, the Commission granted PSE's petition to extend its targeted RFP deadline, and to expand this RFP to include all DERs, rather than only demand response.⁹ This petition acknowledged that a Virtual Power Plant (VPP) platform may be a necessary enabling technology for system-scale DERs and improve the DER RFP process and results. In PSE's 2021 CEIP, the Company describes the VPP as a platform needed to centralize the dispatch of DERs and provide real-time visibility.¹⁰ In this RFP, PSE proposes using the VPP to aggregate many of the small- to medium-sized DERs (most of those between 0.5 MW and 2 MW) to give PSE visibility and, for some resources, control. To monitor, dispatch and track these resources, the Company prefers that all resources be integrated into PSE's VPP platform.¹¹

In this RFP, PSE outlines Connection Types and Controls in its preparation for a significant amount of DERs. The Company discusses its current development of a VPP platform and specifies that all Front-of-the-Meter DERs of greater than or equal to 2 MW capacity be SCADA

⁸ *Id.* at 16.

⁹ *In re Petition of Puget Sound Energy for an Order Approving Proposed Request for Proposals*, Docket UE-200413, Order 05 (March 25, 2021).

¹⁰ *Puget Sound Energy's Final 2021 Clean Energy Implementation Plan*, Docket UE-210795, p. 114.

¹¹ 2022 Draft DER RFP at 9; *see also* the energy delivery section of the qualitative scoring rubric in Exhibit A: Evaluation Criteria and Scoring at A-6 and A-7.

controlled. PSE notes that it is currently updating its *Technical Specifications for Small Generation Interconnections* for generation interconnecting to PSE's distribution system and anticipates that the updated version will be available in January 2022, prior to the final version of this RFP being issued. In discussion with Staff, the Company is currently evaluating VPP vendors and additional implementation details are expected by Q3 2022.

Recommendation: To ensure transparency in the process, the Company should post any updates to specifications related to this RFP, including when it is publicly available, in compliance with the solicitation process rules for any RFP.¹²

Customer Benefits from Transition to Clean Energy

CETA requires that an electric utility must, consistent with the requirements of RCW 19.280.030 and 19.405.040, ensure that all customers are benefiting from the transition to clean energy. Staff understands that both the Commission and its regulated companies are new to the requirements of this statute, especially as it applies to RFPs, and that compliance with CETA will necessarily improve iteratively.

Staff commends PSE's comprehensive approach to complying with these statutes, and with WAC 480-107-025(2). Staff finds improvement in PSE's procurement strategy even since PSE's most recent approved All-Source RFP. Staff considers the following included elements to be strong foundations for PSE and other utilities to build on in future resource acquisitions:

- Flexible procurement categories, indicating PSE's awareness that CETA-compliant energy deployment will require more than ready-made projects, but also "services" more generally, such as awarding contracts solely for recruitment for pre-existing community solar projects.
- Proposal Requirement Forms, Tab 2a: Staff commends the specificity of some questions and the opportunity for flexible narrative in other questions within the Customer Benefit Plan listed in this tab.
- Strongly weighted equity plans within both categories, and the qualitative elements containing the plans counting for 40 percent of the overall bid score.
- A weighted preference for projects built through project labor or community benefits agreements as described in RCW 82.12.962 and 82.08.962.

In discussion with the Company Staff posed the following questions, which should inform Staff's recommendations:

- To what degree did PSE consider customer benefit indicators (CBIs) in shaping their RFP? Though WAC 480-107-025 says that the Company will not be under obligation to include information related to its CEIP and CBIs until after the first CEIP is approved,

¹² WAC 480-107-015.

Staff believes it is not too early to begin to incorporate CBIs into resource acquisition decisions. In response to Staff's question, PSE noted that the primary point for inclusion of CBIs in this RFP are the qualitative scoring rubrics in Exhibit A. CBIs also appear in the CEIP Preferred Portfolio which is included in the RFP as a reference to show program structures that score well with CBIs.

- For which project labor standards within RCW 82.08.962 and 82.12.96 does PSE intend to award points to bidders? The clarification of this point will potentially resolve the comments filed by BlueGreen Alliance on December 23, 2021.¹³ In discussions with Staff, PSE indicated that it would update this scoring language to align better with the statute's various levels of labor standard compliance.

In summary, though certain details are pending with the Company, Staff believes PSE's DER RFP is reasonably consistent with the customer benefit provisions in CETA.

Damages and Contract Term Discrepancies

Staff notes that liquidated damages are mentioned once in relation to all proposals, and damages are also mentioned separately in the demand response section.¹⁴ Staff questions whether both are necessary, and if they are, why only demand response faces potential damages in two areas. Staff also questions the requirement for a five-year minimum contract term for demand response bids, as opposed to battery storage and distributed solar which do not have such a minimum term. Given the questions that Staff, and other stakeholders (including EnergyHub) have voiced concerning damages,¹⁵ Staff recommends that the Company clarify the intent of the damages listed and engage in further discussions with Staff, stakeholders, and potential bidders to ensure that damages are not overly onerous and do not unduly disadvantage certain resource types.

Procedures and Criteria for Evaluation

PSE proposes using a novel two-category bidding structure in which bidders can submit "turn-key" project proposals (Category A), and/or proposals for specific "vendor service components" (Category B). After an initial intake process, these bids will be evaluated in two phases. During the first phase, PSE will evaluate the two categories separately using the Company's 2021 CEIP benefit cost analysis (BCA) tool for quantitative factors, and a qualitative scoring rubric (outlined in Exhibit A) for qualitative factors. This evaluation phase includes factors related to resource benefits, cost, capacity, bidder and project viability/risk, and site control for both categories, as well as energy delivery and permitting/study status for Category A.

¹³ Puget Sound Energy's Draft 2022 Distributed Energy Resources Request for Proposals, Docket UE-210878, Comments from BlueGreen Alliance, (filed Dec. 23, 2021).

¹⁴ 2022 Draft DER RFP at 16, 51.

¹⁵ Puget Sound Energy's Draft 2022 Distributed Energy Resources Request for Proposals, Docket UE-210878, Comments from EnergyHub, (filed Dec. 27, 2021).

While Staff understands and appreciates the Company's desire to make the acquisition process as inclusive as possible, this novel RFP structure (Category A and Category B) is likely to cause confusion among potential bidders if not communicated effectively. For example, Figure 6 provides some clarity of the evaluation process; however, the labels in Figure 6 do not refer to key parts of the proposed evaluation process – including Category A, Category B, Phase 1, Phase 2, Value Fit, Concurrent Evaluation for the All-Source RFP.¹⁶ Staff discussed these ambiguities with Company representatives and believes it would be helpful to further clarify Figure 6, adding clear connections and labels between the components and the text in the RFP.

Finally, PSE asserts during the second phase of resource evaluation, a PSE team will assemble “Value Fit” programs by combining Category B proposals and PSE's internal program offerings. The Company will then compare “Value Fit” programs with the programs from Category A bids and use its BCA tool to produce a short-list of programs to move into the next stage: a concurrent evaluation of DER RFP bids and bids from PSE's 2021 All-source RFP. Staff is concerned about the lack of detail about how the process of assembling “Value Fit” programs will be conducted, and how the Company will address these questions with prospective bidders.

Recommendation: The Company clarified that its programs will not compete directly with Category B vendor service proposals during this “Value Fit” process. Nonetheless, Staff recommends the Company provide additional detail in the RFP about how this process will be conducted and what oversight (e.g., independent evaluator) will be involved. PSE indicated to Staff that it will add language to better define the independent evaluator's role in this process. Staff looks forward to continued discussion regarding how PSE plans to work with prospective bidders and the independent evaluator to identify and address questions regarding PSE's approach to this RFP and All-Source RFP to meet the Company's resource needs.

Technology Neutrality

Staff notes that some language in the RFP risks skewing responses towards specific technologies, or away from newer technologies. In line with the intent of CETA, there is a need for “new technology” in the clean energy transformation. PSE must ensure that newer technologies are evaluated fairly by maintaining technology neutrality throughout the RFP process.¹⁷

¹⁶ 2022 Draft DER RFP at 29.

¹⁷ See RCW 19.405.010(5).

Staff understands the Company's need to avoid unnecessary risk and move quickly to acquire near-term resource needs.¹⁸ However, as shown in Exhibit A: Evaluation Criteria and Scoring, PSE proposes measuring technology risk in number of deployments and years of fleet deployment history. Newer technologies will, by definition, have shorter track records than more established technologies. In the Draft DER RFP, it is not clear whether other measures/criteria that do not rely exclusively on historical deployments have been explored, or could be used, to appropriately account for risk in the evaluation and scoring process.

Staff notes that in the Permitting and Studies criterion, while some of the scoring levels are within a bidder's control, achieving a score of 4 or 5 requires input from the permitting authorities.¹⁹ Compared to more mature technologies (for which permits are issued with some regularity), newer technologies' permitting processes may take longer causing them to lose points under this criterion through no fault of their own. Where possible, Staff encourages the Company to use evaluation criteria that are within a bidder's control.

An explicit example of technology preference appears on page 12 of the main RFP, where the Company states that "PSE prefers lithium-ion technology," for battery energy storage systems.

Recommendation: Staff recommends changes to the RFP, including either (1) removing the reference on page 12 and other explicit preferences for specific technologies, and/or (2) explain the reason for this preference and describe the process a bidder may use to submit a proposal that includes a technology other than the preferred technology. Staff looks forward to additional discussion with PSE representatives and Bates White on evaluation of technology risk and maturation of technologies.

Concurrent Evaluations

In the Company's targeted DER and All-Source RFPs, PSE commits to coordinate evaluation to create a "holistically optimized portfolio," where the shortlists from each RFP will be included in modeling sensitivity analysis, comparing combinations of portfolios across future pricing. Since the bid responses will be evaluated together to meet PSE's resource needs, the Company is using the same IE for this targeted DER RFP as its 2021 All-Source RFP. Bates White provided review and feedback on this DER RFP and will continue to participate as the Company moves through its evaluation of proposals and integration with those of its 2021 All-Source RFP.

¹⁸ WAC 480-107-035(1).

¹⁹ 2022 Draft DER RFP Exhibit A: Evaluation Criteria and Scoring at A-6 and A-7.

Recommendation: In Q1 and Q2 2022, Staff expects PSE to inform Staff and Bates White regarding approaches taken comparing resources considered in the two solicitations while maintaining the integrity of the two processes.

Conclusion

Staff reviewed the RFP and believes it is reasonably consistent with PSE's 2021 IRP, CEIP, and other recent filings.²⁰ Based on this initial filing, Staff needs more information before making a recommendation regarding these two requests for proposals.

Staff will withhold a final recommendation until after other stakeholders respond to the Commission's Notice. Staff intends to present its final recommendations at the Commission's January 27, 2022, Recessed Open Meeting.

²⁰ Note that PSE's final CEIP was filed on Dec. 17, 2021. The Commission has not reviewed the CEIP nor has the CEIP received Commission approval. Therefore, the contents of the final, Commission-approved CEIP are subject to change.