



PUGET SOUND ENERGY

CCA DECARBONIZATION PROGRAMS

2024 ANNUAL REPORT

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1. Executive Summary

This is Puget Sound Energy’s first report on its Climate Commitment Act (CCA)¹ Decarbonization Programs. On December 22, 2023, PSE received approval² from the Washington Utilities and Transportation Commission (UTC) to spend \$7.7 million from 2024 CCA auction proceeds from the sale of no-cost allowances³ for targeted decarbonization projects for residential low-income customers, multi-family premises with low-income customers or in named communities, and small business customers in named communities.⁴ Subject to UTC approval, PSE plans to utilize the same amount of no-cost allowance revenue on decarbonization programs for 2025 and 2026.

For PSE’s initial proposal to allocate \$23 million of CCA no-cost allowance revenues for delivering targeted decarbonization projects over three years 2024-2026,⁵ PSE estimated emission reduction of about 4,800 metric tons of carbon dioxide equivalent (MT CO_{2e}) over three years 2024-2026, an estimated total of about 16,000 MT CO_{2e} over the life of equipment installed.

Pursuant to PSE’s proposal⁶ and UTC Order⁷, PSE consulted with its Low-Income Advisory Committee (LIAC) as well as other interested parties and advisory groups (such as PSE’s Equity Advisory Group⁸) in the first quarter of 2024 to inform program design for 2024 and preliminary program designs for 2025 and 2026. The final CCA Decarbonization Program design incorporated a phased approach to program development intended to maximize the impact of the 2024 CCA no-cost allowance auction proceeds-based funding by: (a) focusing 2024 efforts on deploying funds in partnership with peer utilities and community organizations, and standing up direct installation programs at PSE, and (b) planning longer-term grant-based program deployment in 2025-2026.

The resulting decarbonization partnerships and projects selected for 2024 offer full or partial cost assistance and incentives to all PSE natural gas low-income customers and customers in named communities to assist and incentivize them to take action to decarbonize their energy use through electrification. The partnerships that were selected for 2024 include partnerships with peer utilities, community organizations, and municipality / community action agency partners (CAAs/CAPs). PSE also leveraged synergies with existing PSE programs including the targeted

¹ Washington State Legislature’s 2021 Senate Bill 5126 – also known as the Climate Commitment Act (CCA) or “Cap-and-Invest Program,” codified as Revised Code of Washington (RCW) 70A.65 (effective January 1, 2023).

² *Washington Utilities and Transportation Commission (WUTC) Order 01*, issued on December 22, 2023, Docket UG-230968.

³ RCW 70A.65.070.

⁴ Defined by RCW 19.405.020 as either a highly impacted community or vulnerable population. PSE’s 2021 Clean Energy Implementation Plan (CEIP) (Chapter 3, available at: <https://www.cleanenergyplan.pse.com/library>) provides the following definitions:

- Highly Impacted Communities (HIC): A community designated by the Department of Health based on the cumulative impact analysis required by RCW 19.405.140 or a community located in census tracts that are fully or partially on “Indian country,” as defined in 18 U.S.C. Sec. 1151.
- Vulnerable Populations (VP): Communities that experience a disproportionate cumulative risk from environmental burdens due to: Adverse socioeconomic factors, including unemployment, high housing and transportation costs relative to income, access to food and health care, linguistic isolation, and sensitivity factors, such as low birth weight and higher rates of hospitalization.

⁵ *PSE’s Greenhouse Gas Emissions Cap and Invest Adjustment (Schedule 111) Tariff Change Filing Proposal Cover Letter*, filed on November 11, 2023, WUTC Docket UG-230968.

⁶ *Ibid.*

⁷ *WUTC Order 01*, issued on December 22, 2023, Docket UG-230968.

⁸ For more information about PSE’s Equity Advisory Group, visit: <https://www.cleanenergyplan.pse.com/eag>

electrification pilot⁹ and energy efficiency programs: low-income energy efficiency home weatherization program, multi-family retrofit, and small business direct install.

As of September 30, 2024, PSE has made tremendous progress by designing and launching the CCA Decarbonization Programs from the ground up, and implementing the design consistent with the plan filed with the UTC.¹⁰ As of Q3 2024, PSE has signed all pertinent contracts and is on track to spend 93% of the 2024 planned funding allocated to program partnerships and segments by the end of the year (\$5.7 million out of \$6.2 million directly budgeted for 2024 programs). Most program partners plan to start delivering decarbonization projects to customers starting in October 2024, and most plan to be done by the end of 2024, while some projects will need to be completed in the first half of 2025. PSE plans to provide updated information on project implementation and outcomes, including greenhouse gas emissions reductions, in the next annual report.

Section 2 of this report describes more information about the CCA statute applicable to the allowed use of no-cost allowance auction revenues for decarbonization projects and about PSE's engagement with interested parties to develop program design for CCA decarbonization projects using no-cost allowance auction revenues. Section 3 presents overarching goals of the program and provides information by project phases: 2024 program year and 2025-2026. For each phase, Section 3.3 provides detailed information about planned program partnerships and budgets, implementation activities to date by project or partnership, and outlines next steps for each program or partnership under each element of the program: low-income, multi-family, and small business. Section 3.3 ends with information regarding PSE's evaluation plans for the program's first year. Finally, Section 3.4 summarizes implementation to date on 2024 program year and 2025-2026 program design and budgets.

2. Background

2.1 Legislative Background

In 2021, the Washington State Legislature passed Senate Bill 5126, also known as the Climate Commitment Act (CCA) or “Cap-and-Invest Program,” codified as RCW 70A.65, to reduce greenhouse gas (GHG) emissions in Washington state. The Cap and Invest Program went into effect on January 1, 2023.¹¹ The first compliance period of the Cap and Invest Program is calendar years 2023 through 2026.¹²

The Climate Commitment Act establishes an economy-wide, comprehensive, market-based system intended to reduce overall greenhouse gas emissions in Washington State. PSE is a covered entity and must participate in the compliance program by acquiring compliance instruments (allowances or offsets) for both its electric and natural gas operations on behalf of its customers and facilities. The CCA is a market-based program that is based on using price

⁹ PSE's targeted electrification pilot began with Stipulation O of the settlement agreement in PSE's 2022 general multiyear rate plan proceeding in WUTC Dockets UE-220066 & UG-220067. *WUTC v. Puget Sound Energy*, Dockets UE-220066, et al. Final Order 24/10, Appx. A, Settlement Stipulation and Agreement on Revenue Requirement and All Other Issues Except Tacoma LNG and PSE's Green Direct Program (Dec. 22, 2022) (the “UE-220066 Settlement”), Stipulation O on Targeted Electrification Pilot (STEP).

¹⁰ *PSE's Compliance Filing*, filed on May 30, 2024, WUTC Docket UG-230968.

¹¹ RCW 70A.65.070.

¹² RCW 70A.65.070(1)(a).

signals to encourage decarbonization by people and facilities that have emissions. The CCA provides natural gas utilities no-cost allowances that decrease over time “[f]or the benefit of ratepayers.”¹³ Natural gas investor-owned utilities receiving these no-cost allowances must adhere to several requirements when using them:

- Utilities must consign a portion of their no-cost allowances to auction for the benefit of their customers, deposit the allowances for compliance, or a combination of the two.¹⁴
- Utilities must use revenue generated from no-cost allowances at minimum to eliminate additional cost burden to low-income customers, and additional revenue may be used to provide non-volumetric credits on ratepayer utility bills, prioritize low-income customers, or minimize cost impacts on low-income, residential, and small business customers through weatherization, decarbonization, conservation and efficiency services, bill assistance, and other actions.¹⁵
- Customer benefits provided from natural gas utilities’ no-cost allowances must be in addition to existing legal requirements, or requirements found in other statutes or rules.¹⁶

2.2 Regulatory Background

In November 2023, PSE proposed to allocate \$23 million in estimated no-cost allowance revenue benefits from 2024 to fund targeted decarbonization projects for low-income customers, multi-family premises with low-income customers and in named communities, and small businesses in named communities, which would be implemented over 2024-2026 period.¹⁷ This proposal was informed through PSE’s engagement with interested parties in 2023 about CCA implementation topics,¹⁸ which indicated that many parties were supportive of PSE investing CCA no-cost allowance revenue in decarbonization projects that targeted low-income customers and named communities. PSE also proposed¹⁹ to work with interested parties over the first quarter of 2024 to develop a program design for the CCA decarbonization projects.

In December 2023, the Commission approved setting aside \$7.7 million in estimated proceeds for no-cost allowances during the 2024 rate period.²⁰ The Commission also approved PSE’s proposal to work with interested parties to develop the program design in the first quarter of 2024, and required PSE to file (a) updated plans after the consultation with interested parties and (b) annual status reports on decarbonization projects:

¹³ RCW 70A.65.130(1).

¹⁴ WAC 173-446-240(3).

¹⁵ RCW 70A.65.130(2)(b); see also WAC 173-446-300(2)(b)(iii)(A).

¹⁶ RCW 70A.65.130(2)(b); see also WAC 173-446-300(2)(b)(iii)(B).

¹⁷ UG-230968 (Advice No. 2023-56), PSE’s Cover Letter (November 22, 2023), at p. 2, PSE’s Natural Gas Tariff Filing proposed revisions to rates under natural gas tariff Schedule WN U-2, Schedule 111, Greenhouse Gas Emissions Cap, and Invest Adjustment.

¹⁸ In order to be proactive on complex CCA implementation issues, PSE organized a series of meetings and workshops with interested parties in 2023 to discuss various gas utility CCA implementation issues germane to preparation of a tariff filing related to CCA compliance costs and no-cost allowance revenues. For more information about PSE’s 2023 CCA Implementation Issues workshop meetings, see *PSE’s Comments* in Docket UG-230470 on July 19, 2023.

¹⁹ *PSE’s Greenhouse Gas Emissions Cap and Invest Adjustment (Schedule 111) Tariff Change Filing Proposal Cover Letter*, filed on November 11, 2023, WUTC Docket UG-230968.

²⁰ *WUTC Order 01*, issued on December 22, 2023, Docket UG-230968.

- (a) PSE organized three monthly meetings with interested parties²¹ in the first quarter of 2024 to collaborate and consult on program design for its CCA decarbonization projects. In addition to three larger meetings with parties, PSE also held a number of one-on-one engagement meetings with various parties, such as with potential partners (peer utility and community organizations) and municipality or regional community action agency partners (CAAs/CAPs). At the end of the consultation period, all parties supported or were neutral regarding final program design for all three program segments: low-income, multi-family, and small business. After the consultations, PSE filed a compliance filing to the UTC on May 30, 2024, outlining the final CCA Decarbonization Program design and budget plans.²²
- (b) This report addresses the second part of the compliance requirement from Order 01 (December 22, 2023) in the current Docket UG-230968 and is the first annual status report.

3. PSE's CCA Decarbonization Programs

3.1 Overarching Goals

Working with interested parties, PSE outlined the following overarching goals for its CCA Decarbonization Programs:

1. Facilitate decarbonization projects for low-income residential customers and small business customers in named communities;
2. Decrease customer emissions from natural gas space heating, water heating, and cooking, as applicable;
3. Assist low-income and vulnerable customers with upfront costs associated with electrification, thereby enabling electrification transition for customers who would otherwise not likely be able to afford it;
4. Leverage lessons learned, successful processes, and other feedback from PSE's Targeted Electrification Pilot;
5. Allow for budget flexibility between sub-programs based on program needs, partnerships, and timelines;
6. Incorporate customer education in multiple languages:
 - a. Project expectations, timelines, and other details, and
 - b. Pertinent customer assistance programs;
7. Align CCA funding with other funding sources (e.g., the Inflation Reduction Act, Commerce, federal and state grants), or conservation funding, as much as possible;
8. Benefits to apply to all PSE gas service customers.

²¹ The interested parties and advisory groups that were invited and/or participated in PSE's CCA Decarbonization Programs workshop meetings were: 1. Climate Solutions (CS); 2. Equity Advisory Group (EAG); 3. Northwest Energy Coalition (NWEC)*; 4. Public Counsel (PC)*; 5. The Energy Project (TEP)*; 6. Washington Conservation Action (WCA)*; 7. Washington Utilities and Transportation Commission (WUTC) Staff*; 8. Washington State Department of Commerce (Commerce)*; 9. Tacoma Power (TP); 10. Seattle City Light (SCL); 11. Seattle HomeWise*; 12. King County Housing Authority (KCHA)*; 13. Community Action Council of Lewis/Mason/Thurston Counties (CAC LMT)*. The interested parties marked with an asterisk are also members of PSE's Low-income Advisory Committee (LIAC). The last three parties in the list are community action partnership (CAP) / community action agencies (CAA) or municipality agency that already work with PSE on low-income weatherization projects as part of PSE's low-income energy efficiency home weatherization assistance program (WAP) and as part of PSE's Stipulation O Targeted Electrification Pilot (STEP) low-income offerings. For more information about PSE's 2024 Q1 engagement with interested parties on CCA decarb projects program design, see *PSE's Compliance Filing*, filed on May 30, 2024, in WUTC Docket UG-230968.

²² *PSE's Compliance Filing*, filed on May 30, 2024, WUTC Docket UG-230968.

3.2 Phased Approach to Launch

PSE’s CCA Decarbonization Program is phased: first, 2024 program segments aim to maximize impact through a series of discrete projects by leveraging partnerships and providing funding for CAA/CAP agencies to support capacity building, followed by a longer-term grant-based framework for 2025-2026. The planned program budgets and number of customers that will be served described herein are estimates; these projects are dependent upon customers taking action to upgrade residential and business premises and cannot be fully operationalized by PSE.

3.3 2024 Program Plans and Implementation

Summary of Initial 2024 Plans and Budgets

Figure 1 below summarizes the final 2024 CCA Decarbonization Program Design developed with interested parties during the first quarter of 2024.²³

Figure 1. 2024 PSE’s CCA Decarbonization Program Design Summary

2024 Summary Matrix	Single-Family Residential				Multi-Family Residential		Small Business Direct Installs
	High Point (HomeWise) Direct Installs	Income Qualified Rental Program Direct Installs	Energy Smart Eastside Direct Installs	CAP Agency Capacity Support	Penn Hall Apartments (HomeWise)	MF Direct Installs	
Partners	<ul style="list-style-type: none"> HomeWise CAP Agency Seattle Housing Authority 	<ul style="list-style-type: none"> Tacoma Public Utilities 	<ul style="list-style-type: none"> Energy Smart Eastside Eastside Cities 	<ul style="list-style-type: none"> Low-income weatherization CAP Agencies 	<ul style="list-style-type: none"> HomeWise CAP Agency Seattle City Light 	<ul style="list-style-type: none"> PSE Trade Ally Network Building Owners 	<ul style="list-style-type: none"> PSE Implementers
Est. Units	2024: 53 homes	2024: 25 homes	2024: 32-36 homes	N/A	2024: 30 homes	2024: 2 buildings	2024: 10 businesses
Est. Total CCA Spend	\$2.76M	\$800,000	\$850,000	\$997,000	\$65,000	\$510,000	\$200,000
Decarb Technologies	<ul style="list-style-type: none"> Space and/or water heat 	<ul style="list-style-type: none"> Space and/or water heat 	<ul style="list-style-type: none"> Space heat 	N/A	<ul style="list-style-type: none"> Central water heat 	<ul style="list-style-type: none"> Space and/or water heat 	<ul style="list-style-type: none"> Space and/or water heat
Customer Segment	<ul style="list-style-type: none"> Low-Income Named Community Renters PSE gas only 	<ul style="list-style-type: none"> Low-Income Renters PSE gas only Potential - Named Community 	<ul style="list-style-type: none"> Low-Income Owners & Renters Potential - Named Community 	N/A	<ul style="list-style-type: none"> Low-Income Named Community Renters 	<ul style="list-style-type: none"> Low-Income Named Community Owners & Renters 	<ul style="list-style-type: none"> Small Business Owners & Renters Named Community PSE dual-fuel
Income Qualification By	Agency	Tacoma	Hopelink	N/A	Agency	PSE Bill Discount Rate	N/A

Single-Family Residential

In the single-family residential program segment, PSE worked with interested parties and partners to identify the following focused projects and partnerships for 2024:

- (1) High Point Direct Installs (Seattle HomeWise) project partnership,
- (2) Tacoma Power’s Income-Qualified Rental Program (IQRP) partnership,

²³ PSE’s Compliance Filing, filed on May 30, 2024, WUTC Docket UG-230968.

- (3) Energy Smart Eastside (ESE) partnership, and
 - (4) Decarbonization and weatherization program capacity building support for CAA/CAP Agencies.
- PSE provides detailed information for each of these projects/partnerships below.

(1) High Point Direct Installs Project Partnership with Seattle HomeWise

→ Plan for 2024

PSE is partnering with Seattle Office of Housing entity – Seattle HomeWise – and via that relationship, with Seattle Housing Authority (SHA), to provide weatherization and home repair services for income-qualified households and apartment buildings with low-income tenants. High Point is one of the SHA’s public housing properties located in West Seattle. PSE has verified that High Point is in PSE’s Highly Vulnerable Population (High VP) and Highly Impacted Community (HIC) designations. High Point is a campus of 600 dwelling units with single-family rental homes of various shapes and sizes. Through this partnership, PSE’s CCA Decarbonization Program is providing \$2.76 million for electrification of natural gas space and/or water heating systems for an estimated 53 verified low-income units in the High Point public housing community.

→ Implementation to Date

The contract with the City of Seattle is signed and PSE transferred the project funding (\$2.76 million).

→ Next Steps for Completing 2024 Plan

The planned electrification of natural gas space and/or water heating systems for an estimated 53 verified low-income units in the High Point public housing community is expected to be completed in spring 2025.

(2) Tacoma Power’s Income-Qualified Rental Program Partnership

→ Plan for 2024

PSE’s CCA Decarbonization Program will be providing up to \$800,000 in 2024 for Tacoma Power to expand their Income-Qualified Rental Program (IQRP) program to assist an estimated additional 25 low-income rental homes²⁴ in PSE’s gas-only service territory and in Tacoma Power’s electric territory.²⁵ PSE’s CCA Decarbonization Program will fund 100% of the cost of space and/or water heating heat pumps, while Tacoma Power will provide funding for 100% of conservation/weatherization upgrade costs. Tacoma Power’s Income-Qualified Rental Program is a new program specifically designed to serve low-income single-family customers.

²⁴ The number of low-income households that would receive electrification benefits is an estimate because each individual project would vary in cost, depending on the needs of each household project. Furthermore, the ultimate number of customers served would also depend on customers’ uptake. Although PSE and our partners will offer all these benefits of fully mitigating the cost of heat pumps, customers are ultimately the ones who must take advantage of and follow through these decarbonization / targeted electrification offerings by PSE or our partners.

²⁵ Based on the needs of each property, the homes approved for this program may be eligible for the following: insulation, HVAC (heating, ventilation, and air conditioning) system (either a central heat pump or ductless heat pump), duct sealing, single-pane window replacement with double-pane windows, smart thermostat, and hybrid/heat pump water heater. If repairs are needed for the efficiency upgrades, Tacoma Power can assist with repair costs. Source: *Tacoma Power*. Incentives for Rental Properties Serving Income-Qualified Tenants webpage, last accessed May 1, 2024. <<https://www.mytpu.org/ways-to-save/rental-property-resources/income-qualified-rental-property-incentives/>>

Tacoma Power IQRP provides full cost coverage²⁶ if property owners limit potential rent increases. By partnering with Tacoma Power in their IQRP program, PSE will be able to leverage a standing and successful targeted program to provide comprehensive benefits to PSE’s vulnerable, low-income rental customers starting in 2024. Tacoma Power employs multiple methods of income-qualification verification and all projects in this partnership will be low-income verified renters. PSE has shared its publicly available Named Community maps²⁷ with Tacoma Power to aid in maximizing potential program participation in PSE’s Named Communities.

→ Implementation to Date

PSE and Tacoma Power entered into a Memorandum of Understanding effective on September 5, 2024. PSE worked with Tacoma Power to develop a program that allows PSE to provide decarbonization services to customers prior to receiving weatherization from Tacoma Power. PSE established a set of shared trade ally contractors with Tacoma Power that will be reimbursed for preapproved projects after completion.

→ Next Steps for Completing 2024 Plan

PSE and Tacoma Power have begun to work with customers to start the program process. PSE and Tacoma Power will continue to build upon the early program interest to develop a pipeline to serve customers as projects get completed. Due to the time it took to finalize the memorandum of understanding and partnership details, the revised estimate is 10 projects to be completed by the end of 2024, with estimated spend of \$360,000 (45% of the initially planned budget).

(3) Energy Smart Eastside Partnership

→ Plan for 2024

PSE’s CCA Decarbonization Program will provide \$850,000 in 2024 to the Energy Smart Eastside (ESE) Partnership to fund the installation of approximately 32-36 heat pumps in low-income households (dwelling units).²⁸ Energy Smart Eastside is a climate initiative of the Cities of Bellevue, Issaquah, Kirkland, Mercer Island, and Redmond. The program is funded by city dollars matched with grants from Washington Department of Commerce Clean Energy Fund and Washington State University Community Energy Efficiency Programs. ESE works with the CAA/CAP agency Hopelink to provide outreach, income-qualification verification, and case management for residents accepted into the ESE heat pump program who would benefit from switching their natural gas space heating to an electric heat pump system. PSE’s ESE partnership is funding an expansion of ESE’s program in 2024. PSE’s CCA Decarbonization Program ESE partnership will fund electrification conversions from natural gas space heat to cold-climate heat pumps for PSE’s income-qualified customers, some

²⁶ Tacoma Power. Incentives for Rental Properties Serving Income-Qualified Tenants webpage, last accessed May 1, 2024. <<https://www.mytpu.org/ways-to-save/rental-property-resources/income-qualified-rental-property-incentives/>>

²⁷ PSE Named Communities maps, accessed May 1, 2024. <<https://pugetsoundenergy.maps.arcgis.com/apps/mapviewer/index.html?webmap=55b43c36edd44731992f4e207dc19f70>>

²⁸ Again, the number of low-income households that would receive electrification benefits is an estimate because each individual project would vary in cost, depending on the needs of each household project. Furthermore, the ultimate number of customers served would also depend on customers’ uptake. Although PSE and our partners will offer all these benefits of fully mitigating the cost of heat pumps, customers are ultimately the ones who must take advantage of and follow through these decarbonization / targeted electrification offerings by PSE or our partners.

of which might also be in a named community. All customers in the Cities of Bellevue, Issaquah, Kirkland, Mercer Island, and Redmond are located in PSE’s combined electric and gas territory.

➔ **Implementation to Date**

PSE and Energy Smart Eastside entered into an agreement effective on August 1, 2024. As part of the agreement with ESE, PSE is set to transfer 100% of the budgeted program funds of \$850,000 to ESE by the end of 2024. As of September 30, 2024, ESE has allocated 59% of the funds provided by PSE for their program to scheduled projects for income-qualified customers for heat pump installations and 2 decarbonization projects have been completed.

➔ **Next Steps for Completing 2024 Plan**

Energy Smart Eastside will continue to finalize customer projects with income verification and contractors. ESE estimates to be able to use the 2024 funds provided by PSE’s CCA Decarbonization Program to complete estimated 25 projects by the end of 2024, and the full estimated 30 to 37 income-qualified projects by the end of Q1 2025.

(4) Capacity Building Support for Community Action Partnership Agencies

➔ **Plan for 2024**

PSE’s CCA Decarbonization Program will provide approximately \$1 million for decarbonization and weatherization program capacity building support for three Community Action Agency Partners (CAAs/CAPs): King County Housing Authority (KCHA), Community Action Council of Lewis/Mason/Thurston Counties (CAC LMT), and HomeWise. The CAA/CAP Agency Capacity support will support agency staff and contractor education, as well as agency decarbonization program staffing in preparation for decarbonization projects in 2025-2026. PSE worked with the CAA/CAP Agencies, as well as The Energy Project, through one-on-one and group discussions, to determine the budget allocations to the Agencies to fund estimated 2024-2025 staffing and training needs. All interested parties were supportive of PSE’s CCA Decarbonization Program funding support for CAA/CAP agencies to increase capacity to be able to do more decarbonization projects in 2025-2026.

➔ **Implementation to Date**

PSE agreements with KCHA, CAC LMT, and HomeWise were effective by July 11, 2024. PSE transferred 100% of the upfront funds of \$997,000 to the agencies by September 2024, as planned:

- KCHA: \$500,000
- CAC LMT: \$250,000
- HomeWise: \$247,000

➔ **Next Steps for Completing 2024 Plan**

As the agencies utilize the funds, they will report to PSE on the use of the funds on necessary resources for increasing capacity for decarbonization work: staffing, training, and materials.

Multi-Family Residential

In the multi-family residential program segment, PSE worked with interested parties and partners to identify focus projects and partnerships for 2024:

- (5) Penn Hall Apartments (Seattle HomeWise) project partnership and
- (6) Multi-Family Direct Installs (MFDI) PSE CCA Decarbonization Program.

PSE provides detailed information for each of these projects/partnerships below.

(5) Penn Hall Apartments (Seattle HomeWise) Project Partnership

→ Plan for 2024

PSE is partnering with Seattle HomeWise to fund the cost of electrifying two central natural gas water heaters, budgeted at \$65,000. Penn Hall Apartments has 30 verified low-income units and is located in a PSE Highly Impacted Community.

→ Implementation to Date

PSE's contract with the City of Seattle for the High Point project partnership with HomeWise became effective on July 11, 2024. PSE transferred 100% of the planned budget (\$65,000) in September 2024.

→ Next Steps for Completing 2024 Plan

The Penn Hall Apartments apartment management and HomeWise are currently working with contractors to solidify abatement scope and timing prior to commencing product upgrades for residents. Water heating installation discussed in the plan above is estimated to be completed by the end of Q1 2025.

(6) PSE Multi-Family Direct Installs (MFDI) CCA Decarbonization Program

→ Plan for 2024

PSE's Multi-Family Direct Installs (MFDI) CCA Decarbonization Program will leverage the MFDI program design under PSE's ongoing Targeted Electrification Pilot – focusing on upgrading space and/or water heating gas systems to heat pumps. The program is administered by PSE, where PSE works with building owners, to fund about \$510,000 for 2 additional multi-family buildings in 2024. The program plans to serve PSE's low-income residential natural gas and electric customers, potentially in named communities, by covering the full cost of direct installation of the space and/or water heating heat pump conversions. PSE plans to leverage the pool of customers from previous multi-family conservation participants to target customers for outreach and plans to bundle these CCA Decarbonization Program benefits with the conservation measures offered through the multi-family retrofit program such as weatherization, lighting, and other upgrades.

→ Implementation to Date

The program partnered with PSE's ongoing Targeted Electrification Pilot for two multi-family projects. Pairing of funds allowed PSE to provide the necessary resources for transitional housing projects.

- This first project under the MFDI PSE CCA Decarbonization Program is a transitional housing property with 8 units located in a PSE named community. This project location serves low-income customers

below 50% Area Median Income. PSE is replacing 6 gas water heaters with heat pump water heaters and 4 gas furnaces with heat pumps. This project cost is \$124,194 with CCA covering \$19,194 after PSE's Targeted Electrification Pilot covering \$105,000 and is expected to be completed by December 2024.

- The second project is also a transitional housing project that serves low-income customers below 50% Area Median Income. The project is to replace 20 in-unit hydronic space heating systems with ductless heat pumps, at a cost of approximately \$415,000. This project is currently being planned in segments due to onsite electrical capacity limitations. The onsite electric service capacity will likely not meet the demand of 20 new heat pumps and potential future electrification work such as water heaters and clothes dryers. To adaptively manage the situation, PSE is working with the building owner and the contractor to put in an application with PSE's Customer and System Projects division for a capacity assessment and possible service upgrade. The standard customer costs for service upgrades will apply, but because PSE is funding the heat pump upgrades, the program determined the service upgrade, if needed, would also be covered by the program. While PSE and the customer work through the impacts of service upgrades, PSE is allocating \$80,000 to this project for these costs. Based upon timelines of the upgrade, the heat pump installations will occur in phases starting with an expected 9 heat pump installations in phase 1. PSE also discussed replacing the water heating systems with electric water heat with the owner, but this will be a project that can be assessed once current project barriers are addressed.

➔ Next Steps for Completing 2024 Plan

One project is on track to be completed by the end of the year. PSE is working with the second project building owner and contractors to determine the best phasing for the customer. In total, by the end of 2024, PSE plans to have 13 heat pumps and 6 heat pump water heaters installed through the PSE MFDI CCA Decarbonization Program.

Small Business

(7) PSE Small Business Direct Installs (SBDI) CCA Decarbonization Program

➔ Plan for 2024

PSE plans to administer the Small Business Direct Installs (SBDI) CCA Decarbonization Program focusing on dual fuel customers (PSE's natural gas and electric small business customers) in PSE's named communities to fund upgrades of space and/or water heating gas systems to heat pumps. PSE's SBDI CCA Decarbonization Program plans to spend \$200,000 on approximately 10 small businesses in 2024.²⁹

²⁹ Again, this number of small business projects is an estimate because each individual project would vary in size and cost, depending on the needs of each small business project. In addition, the ultimate number of customers served would also depend on customers' uptake and willingness and ability to follow through with the decarbonization / targeted electrification project.

For 2024, small business was defined as any for-profit business owned and operated independently from all other businesses, employing 50 or fewer employees at its premise, and having 3-year average gross annual receipts not exceeding \$30.4 million.³⁰

➔ Implementation to Date

PSE started soliciting projects through our implementer in July 2024. PSE focused on targeting for-profit small businesses for the SBDI program and encountered some key initial barriers including difficulty identifying interest, scheduling and receiving competitive contractor bids, and identifying suitable projects. To mitigate these challenges, PSE utilized a stepped marketing tactic that focused on contractors first, then business owners. For the first stage, PSE reached out to PSE’s small business contractor partners to identify projects they felt were good candidates for electrification. We received a minimal response from contractors after a follow-up email. PSE then reached out to a targeted list of small business owners within our named communities and received decent responses from customers, which has allowed PSE to build the current pipeline. PSE has identified 8 SBDI projects in named communities which are currently in various stages of scheduling audits and contractor bids.

➔ Next Steps for Completing 2024 Plan

PSE will continue to push forward on small business direct install projects. The adaptive management implemented for project identification produced promising results that need to be audited and scheduled with contractors if found to be a good fit. PSE will evaluate the business energy needs with likely decarbonization impacts to determine likelihood of successful electrification projects. PSE expects to complete 5-7 projects by the end of the year.

Summary of 2024 Budget versus Spend

Table 1 below summarizes PSE’s 2024 budgeted amounts by segment and partnership and estimated spend by the end of the year 2024. Table 1 shows that PSE is currently on track to spend 93% of the budget directly budgeted to customer electrification (\$5.7 million out of \$6.2 million), with most of the under-budgeting coming from delayed program launch timelines in the Tacoma Power Partnership and PSE’s small business direct install programs. PSE expects to allocate all funds by December 2024 but plans to roll unused budget spend into 2025 programs.

Table 1 also shows that PSE is on track to spend 23% of the allocated administrative budget for 2024. There are several factors that are contributing to this estimated underspending, including temporary risk-mitigation and cost controls due to program continuation uncertainties and program’s nascence. PSE expected to hire additional full-time employees dedicated to deployment of the CCA Decarbonization Programs in 2024, however, due to the uncertainty of program continuation,³¹ PSE shifted strategy towards more integration into existing conservation program staffing as temporary risk mitigation. This shift accounted for about half of the unused administrative budget. The other half came from cost controls related to contracting, marketing, outreach, and implementation, again due to uncertainties of program continuation and due to program’s nascence. The underspent administrative funding will be rolled over into 2025-2026.

³⁰ PSE’s Greenhouse Gas Emissions Cap and Invest Adjustment (Schedule 111) Tariff, filed on November 11, 2023, approved on December 22, 2023, effective January 1, 2024. WUTC Docket UG-230968.

³¹ Public ballot initiative I-2117 would have repealed the Climate Commitment Act. I-2117 failed during the November 5, 2024, general election.

Table 1. Expected CCA Decarbonization Program EOY 2024 Spend

Partnership / Program	Budget	EOY 2024 Spend (estimated)	% of Budget Allocated
Single-Family Residential	\$5.40M	\$4.96M	92%
High Point Direct Installs (HomeWise) Partnership	\$2.76M	\$2.76M	100%
Tacoma Power IQRP Joint Utility Partnership	\$0.80M	\$0.36M	45%
Energy Smart Eastside Partnership	\$0.85M	\$ 0.85M	100%
CAA/CAP Agency Support Funding	\$0.997M	\$0.997M	100%
Multi-Family Residential	\$0.575M	\$0.575M	100%
Penn Hall Apartments (HomeWise CAP Agency)	\$0.065M	\$0.065M	100%
PSE Multi-Family Direct Installs	\$0.51M	\$0.51M	100%
Small Business – PSE Direct Installs	\$0.20M	\$0.18M	90%
Total Programs Allocation	\$6.18M	\$5.72M	93%
PSE Overhead - Admin, Staff, Evaluation	\$1.49M	\$0.34M	23%
Total CCA Decarbonization Program Spend	\$7.67M	\$6.06M	79%

Planned Project Evaluation for 2024

Regular evaluations of programs are conducted as part of PSE’s normal process in providing customer conservation programs. Evaluations are performed by independent, external evaluators and PSE’s internal evaluation team to prospectively improve program delivery and program energy savings estimates derived from the Company’s energy efficiency portfolio of programs. Given the nascent nature of decarbonization programs, PSE plans to evaluate the CCA Decarbonization Programs to prospectively improve program delivery and partnership design.

PSE has begun scoping evaluation of CCA Decarbonization Programs with PSE’s current program evaluator, Cadmus. The program evaluation goals are still being finalized but currently focus on:

- Assess the effectiveness of serving low-income customers with no-cost electrification.
- Understand the energy impacts of electrification on low-income customers and customers in named communities.
- Assess non-energy benefits of electrifying homes rather than installing more efficient gas equipment for low-income customers and customers in named communities.
- Identify the role of different program designs in a diverse low-income and named community decarbonization portfolio and the integration of program designs into existing programs in the region.
- Identify and measure small business participation in named communities.
- Assess the effectiveness and gaps in partnering with peer utilities on decarbonization programs.

In the evaluation, PSE plans to include information about actual emission reductions from CCA Decarbonization Projects in 2024.

The evaluation of the 2024 CCA Decarbonization Programs is currently expected to take place from July 2025 until December of 2025. PSE will provide evaluation results in the subsequent annual report to the UTC.

3.4 2025-2026 Program Design and Implementation Plans

Summary of Initial 2025-2026 Program Design Plans and Budgets

Figure 2 provides the summary of the 2025-2026 CCA Decarbonization Program design on which PSE consulted with interested parties during the first quarter of 2024. Based on experiences and learnings from 2024, PSE has shifted the budget forecast for administrative costs down to \$2 million (from \$3.5 million) and reallocated \$1.5 million equally to single-family, multi-family, and small business direct install programming. As such, Figure 2 reflects revised estimated budgets for each program segment, and Table 2 below also provides a revised summary of the planned 2025-2026 CCA Decarbonization Program budgets.

Figure 2. 2025-2026 PSE’s CCA Decarbonization Program Design Summary

2025-2026 Summary Matrix	Single-Family (SF) Residential		Multi-Family (MF) Residential		Small Business Direct Installs
	Income Qualified Rental Program Direct Installs	SF Decarb Grants	MF Direct Installs	MF Decarb Grants	
Partners	<ul style="list-style-type: none"> Tacoma Public Utilities 	<ul style="list-style-type: none"> Low-income weatherization CAP Agencies Other organizations 	<ul style="list-style-type: none"> PSE Trade Ally Network Building Owners 	<ul style="list-style-type: none"> LIW Agencies Other organizations 	<ul style="list-style-type: none"> PSE implementers
Est. Units	2025: 25 homes 2026: 25 homes	2025: 3-5 grants programs 2026: 3-5 grants/programs	2025: 5 buildings 2026: 6 buildings	2025: 2-4 grants/programs 2026: 2-4 grants/programs	2025: 50 businesses 2026: 95 businesses
Est. CCA Spend	2025: \$800,000 2026: \$800,000	2025: \$1.75M 2026: \$1.75M	2025: \$1.2M 2026: \$1.6M	2025: \$1.25M 2026: \$1.25M	2025: \$1.0M 2026: \$1.9M
Decarb Technologies	<ul style="list-style-type: none"> Space and/or water heat 	<ul style="list-style-type: none"> Space and/or water heat 	<ul style="list-style-type: none"> Space and/or water heat 	<ul style="list-style-type: none"> Space and/or water heat 	<ul style="list-style-type: none"> Space and/or water heat
Customer Segment	<ul style="list-style-type: none"> Low-Income Renters PSE gas only Potential - Named Community 	<ul style="list-style-type: none"> Low-Income Named Community Renters, if possible to prioritize 	<ul style="list-style-type: none"> Low-Income Named Community Owners & Renters 	<ul style="list-style-type: none"> Low-Income Named Community Renters, if possible to prioritize 	<ul style="list-style-type: none"> Small Business Owners & Renters Named Community PSE dual-fuel
Income Qualification By	Tacoma	TBD	PSE Bill Discount Rate	TBD	N/A

Table 2. 2025-2026 PSE CCA Decarbonization Program Budget

Partnership / Program	2025-2026 2-Year Budget	Allocation
Single-Family Residential	\$5.1M	33%
Tacoma Power IQRP Joint Utility Partnership	\$1.6M	10%
PSE SF Decarbonization Grants	\$3.5M	23%
Multi-Family Residential	\$5.3M	35%
PSE MF Direct Installs	\$2.8M	18%
PSE MF Decarbonization Grants	\$2.5M	16%
Small Business – PSE Direct Installs	\$2.9M	19%
Total Programs Allocation	\$13.3M	87%
PSE Overhead - Admin, Staff, Evaluation	\$2.0M	13%
Total CCA Decarbonization Program Spend	\$15.3M	100%

Single-Family Residential

In the single-family residential program segment, PSE worked with interested parties and interested partners to identify the following focused programs and partnerships for 2025-2026:

PSE plans to continue its partnership with Tacoma Power in line with current implementation of the latter’s Income-Qualified Rental Program (IQRP) partnership. PSE’s CCA Decarbonization Program would provide \$800,000 to this program for year 2025 in which Tacoma Power and PSE would solidify our IQRP program partnership in 2025 to assist an estimated additional 25 low-income homes of renters in PSE’s gas-only service territory and in the electric territory of Tacoma Power. PSE’s CCA Decarbonization Program funding would continue to fund 100% cost of space and/or water heating heat pumps, while Tacoma Power would continue to provide funding for 100% of conservation/weatherization upgrade costs.

For single-family decarbonization grants, PSE plans to take the lessons learned and process development with the HomeWise High Point partnership of 2024 to create a project reimbursement grant available to entities serving low-income customers and customers in named communities. PSE plans to offer this grant to CAA/CAP agencies, property owners of low-income properties, and other entities who serve low-income customers and customers in named communities living in single-family buildings. Projects would be evaluated to assess impact to customer, impact size of the project, property electric load requirements, and co-deployment of PSE efficiency programs.

Multi-Family Residential

In the multi-family residential program segment, PSE worked with interested parties and interested partners to identify focus projects and partnerships for 2025 and 2026.

PSE plans to take the lessons learned and process development with the HomeWise High Point and Penn Hall partnerships of 2024 to create a project reimbursement grant available to entities serving low-income customers and customers in named communities. PSE plans to offer this grant to CAA/CAP agencies, property owners of low-income properties, and other entities who serve low-income customers and customers in named communities living in multi-family buildings. Projects would be evaluated to assess impact to customer, impact size of the project, property electric load requirements, and co-deployment of PSE efficiency programs.

PSE's Multi-Family Direct Installs (MFDI) CCA Decarbonization Program would leverage the MFDI program design established in 2024 – focusing on upgrading space and/or water heating gas systems to heat pumps. The PSE MFDI CCA Decarbonization Program would continue to be administered by PSE, where PSE would work with building owners, to fund about \$1.2 million in 2025 for approximately 5 buildings and \$1.6 million in 2026 for about 6 buildings. The PSE MFDI CCA Decarbonization Program plans to serve PSE's low-income residential natural gas only and combined natural gas and electric customers, potentially in named communities, by covering the full cost of direct installation of the space and/or water heating heat pump conversions. PSE plans to leverage the pool of customers from previous multi-family conservation participants to target customers for outreach and PSE plans to bundle these CCA Decarbonization Program benefits with the conservation measures offered through the multi-family retrofit program such as weatherization, lighting, and other upgrades.

Small Business

PSE plans to continue to administer the PSE SBDI CCA Decarbonization Program focusing on dual fuel customers (PSE's natural gas and electric small business customers) in PSE's named communities to fund upgrades of space and/or water heating gas systems to heat pumps. The PSE SBDI CCA Decarbonization Program plans to spend estimated \$1.0 million on approximately 50 small businesses in 2025 and \$1.9 million for approximately 95 businesses in 2026.³²

PSE received feedback from interested parties to expand the definition of small business to include non-for-profit organizations. As such, in PSE's 2025 CCA filing, PSE plans to propose the following new definition of small business: a Customer on gas Schedule 31 gas metered and, if also taking electric service from the Company a Customer on electric Schedule 24 or Schedule 25 customer, with a footprint of 10,000 square feet or less and with 50 or fewer employees at that premise.³³

³² Again, this number of small business projects is an estimate because each individual project would vary in size and cost, depending on the needs of each small business project. In addition, the ultimate number of customers served would also depend on customers' uptake and willingness and ability to follow through with the decarbonization / targeted electrification project.

³³ PSE plans to file its 2025 CCA tariff filing on November 15, 2024 for rates effective January 1, 2025.

4. Conclusion

PSE's CCA Decarbonization efforts serve low-income and named communities in the single-family, multi-family, and small business groups within its natural gas customer base (both gas only and those natural gas customers receiving electric service from PSE). Through the development of in-house programs as well as utilizing external partnerships (peer utilities, community organizations, and community action partnership agencies) in the Puget Sound area, PSE is using its CCA no-cost allowance revenue for the benefit of customers, prioritizing low-income customers and cultivating greater equity throughout its service territory. These programs enable PSE's low-income and vulnerable customers to decarbonize through electrification and weatherization at no cost.

In just the first year of the program, PSE has made tremendous progress in serving customers with the budgeted \$7.7 million through the launch and implementation of the CCA Decarbonization Programs. While PSE originally planned for a ramp of program activity that allocated less budget for 2024, PSE has been able to design and ramp up programs faster than anticipated and has allocated 93% of the 2024 planned funding to all program partnerships and segments.

Subject to UTC approval of continued funding from CCA no-cost allowance revenues, PSE has robust continuation plans for PSE's CCA Decarbonization Programs for 2025-2026.