PUGET SOUND ENERGY

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February 28, 2020

Filed Via Web Portal

Mark L. Johnson, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Re: **Docket UE-191023: Comments of Puget Sound Energy Relating to Clean Energy Implementation Plans and Compliance with the Clean Energy Transformation Act.**

Dear Mr. Johnson:

Puget Sound Energy ("PSE" or the "Company") appreciates the opportunity to respond to the questions posed in this docket and submits the following comments in response to the request in the Washington Utilities and Transportation Commission's ("Commission") Notice of Opportunity to File Written Comments issued in Docket U-191023 ("Notice") on January 15, 2020.

Introduction

Puget Sound Energy (PSE or "the Company") appreciates the Commission opening this rulemaking and establishing an aggressive one year timeline to ensure utilities have clear rules and adequate time to draft their first Clean Energy Implementation Plans (CEIPs) in 2021. PSE will have the largest compliance obligation of any utility in the state, and the success of the Clean Electricity Transformation Act (CETA) depends heavily on PSE's success in achieving its targets. CETA will drive PSE to transform over half of its power supply portfolio to clean resources, customer programs, and energy transformation projects over the next 25 years, with most of the activity occurring in the next ten years. This is the largest and most rapid acquisition and integration of resources the Company has undertaken in its history and will more than double our existing portfolio of renewable resources. Integrating these resources will also require PSE to make investments in its transmission and distribution systems, metering, technology, operations, personnel, and other foundational utility infrastructure. The timing,

magnitude and scope of this challenge, while also keeping rates affordable for all customers and maintaining resource adequacy,[1] is significant and cannot be overstated.

To be successful, PSE needs willing customers and partners, supportive stakeholders, and an accommodative regulatory environment to achieve its CETA goals. PSE views the CEIP and its corresponding approval process as one of the most important elements to making CETA a success. The CEIP is the mechanism that allows utilities to propose balanced portfolios that include resources that cannot compete under a traditional least cost framework such as distributed energy resources (DERs), demand response programs, and other new technologies. In a post CETA world, utility scale renewables will suffocate DERs if a traditional least cost test is applied. It is important the Commission give special consideration to the "balanced" nature of the proposed utility portfolios in the CEIP. This is an example of PSE wanting to ensure the implementing rules do not create roadblocks or speedbumps to achieving success, but instead give utilities confidence to act quickly and make decisions to acquire a balanced portfolio of resources that rapidly decarbonizes the portfolio in an equitable way. CETA provides the Commission with the authority to allow utilities to propose balanced portfolios and act quickly upon them.

In responding to the following 29 questions, PSE will stress the importance of drafting rules with the intent to provide utilities clarity and certainty for action, not rules that could potentially foster uncertainty, unnecessary process, or delay. To meet CETA's aggressive and binding targets in 2030 and 2045, rules should reflect that utilities have ownership of drafting and executing their CEIPs but also the flexibility to set non-binding interim targets, acquire resources, offer programs, maintain reliability, and manage costs. PSE views the CEIP as presenting a balanced portfolio of resources and investments that attempt to address near-term and real-world factors such as cost pressures, transmission constraints, technology maturity, and customer willingness to participate. For example, given that PSE's 2030 clean energy resource need is so large, and capacity constraints already exist today, PSE believes its distribution system will need to play a more prominent role in order for PSE to make real and measurable progress towards meeting its 2030 compliance obligation.

This will be a challenging hill for PSE to climb, and critical to how PSE serves its customers and creates a cleaner energy future for our state. In order for PSE to be successful in this endeavor, it is critical that the rules and Commission processes be predictable, efficient and clear, and that utilities have the certainty, flexibility and autonomy to implement their plans. PSE looks forward to working with the Commission

[1] By 2026, the region is forecast to be at a 26% Loss of Load Probability, more than five times the acceptable resource adequacy target established by the Northwest Power and Conservation Council. See pp. 5-6 of the Northwest Power and Conservation Council's 2024 Resource Adequacy Assessment, published in October of 2019 at: https://www.nwcouncil.org/sites/default/files/2024%20RA%20Assessment%20Final-2019-10-31.pdf

and other interested stakeholders in crafting rules and policies to accomplish these objectives.

Responses to Commission Questions

1. CETA stresses the need to maintain system reliability and resource adequacy. RCW 19.405.060(1)((a)(iii) requires that the specific actions taken in a CEIP be consistent with the utility's resource adequacy requirements. What information should utilities include about their system reliability and resource adequacy in the CEIP? For example, should the utilities include detailed information about the resource mix it plans to use to meet system reliability and resource adequacy and how each resource type contributes?

PSE Response

PSE supports the proposal to require CEIPs to provide detailed information about the resource mix that utilities plan to use to meet system reliability and resource adequacy (RA). Utilities should be required to show, on an annual basis, how each type of resource contributes to meeting the utility's RA requirement, as established in the Clean Energy Action Plan (CEAP), and the associated costs of those resources. Each utility should demonstrate RA consistent with any regionally agreed upon RA metrics. This information will enable the Commission to appropriately assess whether the utility is on-track to meet its CEIP targets in a manner that maintains the reliability of the system at the lowest reasonable cost, as required by CETA.

The Commission does not need to promulgate specific rules that prescribe which resources utilities should procure to meet their respective resource adequacy (RA) needs, nor how specific resources should be used to meet that need. Resources have different characteristics with respect to their contributions to capacity and energy. Overly prescriptive rules in this regard could limit the utilities' flexibility to be innovative and to balance cost and reliability as they develop their CEIPs.[2]

Targets

2. RCW 19.405.060(1) requires that by January 1, 2022, and every four years thereafter, each electric investor-owned utility must develop and submit to the Commission a four-year CEIP for the standards established under RCW 19.405.040(1) and 19.405.050(1). The plan must propose specific targets for energy efficiency, demand response, and renewable energy. The plan must also propose

[2] Similarly, as is asked in Question 3, changing the resource mix in a utility's CEIP without accounting for these characteristics could jeopardize the utility's ability to meet its RA obligations.

interim targets for meeting the standard in RCW 19.405.040(1) prior to 2030 and between 2030 and 2045.

This rulemaking can be particularly helpful to all parties by clearly distinguishing between target setting and compliance obligations. CETA makes clear that utilities have a compliance obligation in 2030 that is subject to penalty. These CEIP rules can clarify that interim targets and specific targets are not a compliance obligation, but an exercise in demonstrating progress. It will be important that the rules are very clear in defining and setting expectations for target setting. PSE suggests the following terminology be used consistently in this rulemaking:

"Specific targets" mean the targets provided specifically for energy efficiency, demand response, and renewable energy that must be included in the CEIP for the four-year period.

"Interim targets" means the four-year targets included in the CEIP for: (1) achieving a carbon-neutral electric portfolio by 2030 as specified in RCW 19.405.040 and (2) meeting the state policy to achieve 100% clean electricity through renewable and non-emitting resources as specified in RCW 19.405.050(1).

These terms, as defined above, will be used throughout PSE's responses, particularly in the section on "CEIP Targets" as well as the section regarding "Demonstration of Compliance with RCW 19.405.030, .040, and 050."

Furthermore, in requiring specific targets for energy efficiency, demand response, and renewable energy in a utility's CEIP, as well as distinguishing between renewable resources and non-emitting generation, CETA allows utilities to propose a balanced portfolio, one in which the costs of non-emitting resources, like demand response or distributed energy resources (DERs), are not compared and judged directly against renewable resources. The definition of "non-emitting generation" under RCW 19.405.020(28)(a) supports this approach. Otherwise, comparing DERs against utility scale resources in a lowest reasonable cost framework would stifle the development of DERs.

a. Should the rules provide that specific targets must be defined cumulatively for each four year period, or identified annually, within the four year compliance period?

PSE Response

PSE suggests that renewable energy and demand response targets in the CEIP should be defined cumulatively for the four-year period. Energy efficiency targets should be

defined as two, two-year targets consistent with the biennial Energy Independence Act (EIA) target setting process. PSE believes target setting is an important part of CETA, in that it signals the utility's intended path within a four-year period for implementing its clean energy plans. However, it is important that the rules be clear that neither a specific target nor an interim target is to be construed as a compliance obligation. The word "target" means an objective towards which efforts are directed. By its very definition, a "target" signals an objective and it should not be misconstrued as the compliance obligation utilities must meet by 2030.

PSE recommends the biennial EIA target setting process remain intact for energy efficiency resources and that the Commission require the energy efficiency four-year target be updated with each Biennial Conservation Plan. For instance, assume that the first quadrennial energy efficiency target (2022-2025) is 100 aMW and the first biennial target is 60 aMW. This would mean that the second biennium's target would be 40 aMW. Now, assume that during the 2023 Integrated Resource Planning (IRP) process, an additional saving potential is identified, and the second biennium's target (2024-2025) is now 50 aMW. This would mean that the quadrennial target could be updated to 110 aMW at the mid-way point in implementing the 2022-2025 CEIP.

PSE requests the Commission take a long-term view and provide utilities with flexibility when reviewing and approving CEIP specific targets and interim targets. PSE does not have vast experience running demand response programs or executing new types of renewable energy technologies. In the early cycles of CEIP development and implementation, predicting what amounts of demand response and renewable energy are achievable in setting targets may be subject to change, as PSE will be continually learning and improving in this space over time.

b. Should the Commission require utilities to identify interim targets by resource type or some other metric(s), such as percentage of sales to customers from non-emitting generation and renewable resources?

PSE Response

Commission rules should not specify a metric. Instead, the Commission should allow utilities the flexibility to define their own metrics in their CEIP. CETA is clear that utilities must propose interim targets every four years for: (1) achieving a carbon-neutral electric portfolio by 2030 as specified in RCW 19.405.040(1); and (2) meeting the state policy to achieve 100% clean electricity through renewable and non-emitting resources as specified in RCW 19.405.050(1). No further guidance on metrics is necessary at this point. If interim targets become confusing after one or two CEIP cycles, the Commission could consider promulgating rules in the future.

c. Should the Commission require that interim targets be defined cumulatively or annually for the years prior to 2030? For the years between 2030 and 2045?

PSE Response
Consistent with the treatment of CEIP specific targets, PSE believes interim targets for meeting the 2030 standard should also be defined cumulatively over four-year periods prior to 2030. Defining interim targets cumulatively over four-year periods is a reasonable approach, since resource acquisition will occur in blocks of resources, as opposed to a smooth annual curve. With respect to interim targets for the years between 2030 and 2045, it seems premature to develop rules for this time period, as the Commission, utilities, and stakeholders are still determining what the CEIP process will look like for the two compliance periods between now and 2030.

The Commission will be in a better position after the first CEIP cycle to determine what rules may be appropriate for the interim targets after 2030.

3. RCW 19.405.060(1)(c) requires the Commission to approve, reject, or approve with conditions the CEIP and associated targets after a hearing. With conditional approval, the Commission may recommend or require more stringent targets. Are there circumstances in which the Commission can and should recommend, rather than require, more stringent targets? If so, when should the Commission recommend more stringent targets and on what basis could and should the Commission not require more stringent targets?

PSE Response
PSE feels it is important that the Commission approve or reject the CEIP within a four month time period and limit the use of conditional approval because it creates uncertainty, which could slow implementation of the CEIP. PSE recognizes that there will be uncertainty in the development and implementation of early CEIPs, but also that there is an urgency to move to meet the targets set in CETA. If the Commission feels that conditional approval of a CEIP is necessary, targets should still be approved or rejected and the Commission should provide a clear rationale and basis for the conditional approval, so that the affected utility could make meaningful changes to its CEIP.

Approval of targets in CETA is a critical policy feature of the law. It creates an actionable policy framework for utilities to pursue lowest reasonable cost strategies that incorporate considerations of risk, equity and other factors outlined in CETA, instead of the historical policy of "least cost." Furthermore, in requiring specific targets for energy efficiency, demand response, and renewable energy in a utility's CEIP, as well as

distinguishing between renewable resources and non-emitting generation under CETA, it is clear the law expects utilities to propose a balanced portfolio overall – a portfolio that includes both traditional renewable resources as well as energy efficiency, demand response, and distributed energy resources. As stated previously in response to Question 2, non-emitting resources, such as demand response or distributed energy resources, should not be compared and judged against renewable resources. In reviewing a utility's CEIP, the Commission should consider whether the utility included a suite of lowest reasonable cost renewables, a suite of lowest reasonable cost distributed energy resources, and so on. In the end, the Commission needs to consider the balanced nature of the overall portfolio and that, in the aggregate, the portfolio meets a lowest reasonable cost standard that factors in risk and the equity considerations required under RCW 19.405.040(8).

If the Commission approves of a utility's targets and the overall portfolio, then this approval provides the utility the assurance that the Commission formally agrees that its CEIP is an appropriate portfolio to pursue, and the utility may proceed with implementing plans to acquire those targets prudently.

If the Commission were only to issue recommended changes to targets or provide unclear guidance to a utility in a conditional approval, this would create uncertainty for the utility. It would be unclear whether the utility should proceed under the terms of the approved plan or under the recommended targets. Furthermore, any changes to targets or timelines cannot be considered in isolation as those changes will come with associated changes to anticipated benefits and costs.[3] Additionally, the Commission should not recommend nor require more stringent targets when doing so could cause an undue burden for customers, keeping in mind the equity and other provisions in CETA, the incremental cost of compliance, which was intended to prevent rate shock, and other factors.

4. RCW 19.405.060(1)(c) allows the Commission to periodically adjust or expedite timelines when considering a utility's CEIP or interim targets. A common Commission practice is to respond to a motion to adjust timelines from any party with standing in a proceeding at any time or after hearing a compliance item at an open meeting.

[3] As an example, energy efficiency targets are already based on the most up-to-date achievable electric conservation targets. PSE's target setting process is consistent with RCW 19.285 and WAC 480-109, which follows the Northwest Power Planning Council's methodology. Performing these analyses while looking out four years into the future of a dynamic marketplace adds significantly more uncertainty to savings projections. Adding a requirement for "more stringent targets" in this area could simply introduce false precision or result in setting a technically unachievable target.

a. **What criteria should the Commission take into account in making changes to timelines?**

PSE Response
Changes to timelines should be limited and only considered if there are major changes caused by unforeseen circumstances outside of the utility's control. Any necessary changes should be executed with a clear and efficient structure. Utilities need both certainty and time to actually implement plans safely, assess results and adjust to incorporate lessons learned, especially with new technologies. Processes that undermine the benefits of approving the 4-year CEIP targets and force utilities to focus on regulatory processes instead of acquiring resources will not help achieve the Legislature's objectives.

If the Commission is willing to consider requests to change timelines from parties other than the utility, an important criterion the Commission could consider in determining standing is commercial experience. Does the petitioning party have commercial experience within the sub-category they are recommending a change to the timeline? In any case, the Commission should require that the party filing to change the timelines be able to demonstrate: (1) the costs and benefits of making the changes to the targets; and (2) the quantity of the resources available in the market to prove the targets are achievable.

b. When should the Commission consider adjusting or expediting the timeline? How should the Commission interpret the term "periodically?"

PSE Response
Again, the Commission should avoid adjustments to the timelines inside the four-year cycles of the CEIP to ensure the utilities have the certainty and flexibility to act. The debate over targets and timelines should occur during the public processes and Commission consideration of the CEIP.

If the Commission must include a mid-point adjustment time period in rule, PSE suggests that the only time to entertain requests to adjust or expedite a timeline in a utility's CEIP would be after the utility files its IRP progress report. The IRP progress report could include an update on how the utility is progressing toward achieving its CEIP targets. At that time, the utility or a party with standing could request an update to the targets.

However, requests to update the timelines for an already approved CEIP should only be considered by the Commission for major changes caused by unforeseen circumstances outside of the utility's control. This should be a limited process, driven by the utility and its commercial and market experience while executing the plans. Such a filing likely

would rely on highly confidential information of commercial transactions that may not have been executed, so third-party intervention will necessarily come with significantly more difficult and time-consuming administrative process.

The process for adjusting targets and/or timelines should be a quick and efficient process. PSE suggests no more than a month, beginning within two weeks of when the utility's IRP progress report is filed. Even a 6-month litigated process would consume 25 percent of the remaining CEIP cycle. During such a process, the utility would be reluctant to act, because the Commission would effectively be suspending the approval that is so important to this process.

In conclusion, PSE strongly prefers the Commission avoid interim changes to targets, but if the Commission must include a provision in rule, then the Company proposes that changes could be made during a limited window of time after the utility files its IRP progress report to address major, unforeseen circumstances that are outside the utility's control.

c. Who bears the burden of demonstrating that adjusting or expediting the timeline can or cannot be achieved in a manner consistent with RCW 19.405.060(1)(c)(i)-(iv)?

PSE Response

The party filing the petition bears the burden of demonstrating that the proposal to adjust or expedite the timeline can be achieved in a manner consistent with the conditions outlined in RCW 19.405.060(1)(c)(i)-(iv). This includes demonstrating the costs and benefits of the changes, as well as how changing the targets is feasible based on the current commercial resource potential in the market. Based on a filing, a utility may have to evaluate if the adjusted timeline will allow safe implementation of a reliable, adequate and affordable system. The utility may have to provide evidence to the Commission on this evaluation and the Commission will have to determine if the adjusted timelines can be met, as a change in timeline amounts to a change to the CEIP target(s).

5) What level of additional detail, if any, should the specific CEIP targets include beyond the statutory language?

a. For energy efficiency, the target required by the Energy Independence Act, RCW 19.285.040(1)(a), follows methods consistent with those of the Pacific Northwest Power and Conservation Council and only considers first year savings. Should the energy efficiency target in the CEIP be based on cumulative savings, savings projected over the lifetimes of measures implemented in a given program year, or capacity savings?

PSE Response
PSE prefers most elements of the CEIP, such as targets, investment plans, etc. be based on projections and forecasts. The one exception to that preference is target setting for energy efficiency, which PSE believes should remain consistent with the Pacific Northwest Power and Conservation Council's methodology of considering first year savings. Energy efficiency will likely play a bigger role in achieving CETA compliance, and utilities need the flexibility to ramp up the programs they already operate and are familiar with. Introducing a new metric of savings achievement for CETA separate from the EIA process likely would add significant complexity, uncertainty and administrative costs to energy efficiency programs. It is an unnecessary distraction to change and disrupt the energy efficiency target setting and public processes at this time. PSE expends considerable effort as part of each BCP cycle to ensure the targets being discussed are clearly understood at the Conservation Resource Advisory Group (CRAG) meetings and amongst other stakeholders.

b. For demand response (DR):

i. How should the Commission develop a cost test to identify cost-effective demand response, as referenced in the Commission's *draft* rules under WAC 480-100-610(12)(e) (*See Integrated Resource Plan Rulemaking*, Docket UE-190698, Staff Discussion Draft Rules (Nov. 20, 2019))?

PSE Response
PSE does not recommend the Commission develop a specific cost test for demand response at this time. Demand response targets in the CEIP would be one part of the overall balanced portfolio derived from the utility's CEAP and would not necessarily be subjected to a stand-alone cost effectiveness test. In other words, while demand response might not be the "least cost" resource when viewed in isolation, PSE believes demand response could be part of an overall lowest reasonable cost portfolio including risk and equity considerations to meet CETA's objectives. Attempting to develop a stand-alone cost test for demand response is an unnecessary and potentially controversial distraction in the CEIP rulemaking.

ii. Should demand response potential be considered only within a utility's service territory or encompass the utility's entire balancing authority?

PSE Response
At this time, PSE recommends that utilities focus on the demand response potential within a utility's service territory, as this is the area where the utility has the most direct connection to customers and demand response opportunities. Depending on the normal weather conditions, customer make up, and resource and transmission availability, different utilities may have needs for different types of demand response performance.

c. For renewable energy:
i. How should the utility calculate its target? Should it be a glide path to 2030, glide path to 2045, or both?

PSE Response
In setting its specific targets, the utility should calculate its targets based on its glide path to 2030 and 2045. This allows certainty in the initial target-setting. If future analysis indicates that a different glide path becomes feasible, the glide path can be adjusted.

ii. How should the utility consider and account for the Energy Independence Act renewable targets, as referenced in RCW 19.285.040, and non-emitting resources, as referenced in RCW 19.405.040(1)(a)(ii), when calculating the utility's renewable target under CETA?

PSE Response
When calculating a utility's renewable target under CETA, utilities should consider and account for both renewable resources (that qualify under both the Energy Independence Act and CETA) as well as a broader set of resources that count towards CETA targets, such as non-emitting resources and energy transformation projects. Any renewable resources the utility plans to use to meet its Energy Independence Act renewable targets would not be considered when the utility considers costs that contribute towards the 2% incremental cost of compliance mechanism under CETA.

6. Should the CEIP contain time ranges for the acquisition of capacity resources, or deadlines for acquisition?

PSE Response
No, time ranges for the acquisition of capacity resources or deadlines for acquisition should not be required as part of a CEIP. However, the Commission's CEIP rules should give utilities the option of including capacity resources in their CEIPs. This would give a more complete picture of the resources truly necessary to implement CETA. CETA requires the utilities to consider reliability and resource adequacy when developing its clean energy action and implementation plans, a consideration that is increasingly important as the Pacific Northwest region enters a period of capacity shortage. The volume of renewable energy resources that will be developed as part of CETA will require flexible integration of resources. The type and speed of capacity available, through regional resources or through the energy markets, will become important.

Given the sometimes long lead time for acquiring resources, PSE anticipates its CEIP may specify the types and timing of resources needs, including capacity resources, even

if outside the four-year time period of the CEIP. Additionally, it may be prudent for a utility to specify its proposed time range for acquisition.

7. What guidance (content and form) should the Commission provide to ensure utilities employ robust, equitable, and inclusive public involvement in drafting CEIPs?

PSE Response
The Commission does not need to offer prescriptive guidance in this area at this time. Utilities understand that CETA requires a utility to demonstrate robust, equitable and inclusive public involvement. PSE seeks flexibility in how to design its public involvement plans so that it can achieve a balance of public involvement and stakeholder engagement. Furthermore, PSE prefers flexibility because, over time, the CEAP and CEIP process may begin to run more concurrently, and ideally public involvement processes could become more integrated. Thus, PSE prefers broad and flexible rules concerning public engagement over prescriptive ones.

Given the magnitude of PSE's clean energy resource need, PSE may need to rely upon solutions which partner with - or rely more extensively on - customers and/or other third parties. As such, public engagement with customers and the industries of potential partners will be important and must be tailored and allow for flexibility to help PSE address its unique challenges.

In the end, it is PSE's responsibility to ensure that it has a robust, equitable and inclusive public involvement strategy around its clean energy plans. PSE is committed to sharing its clean energy vision and plans with stakeholders outside of the traditional "stakeholder engagement" processes. PSE sees this as important to its success in meeting the goals and expectations of CETA, irrespective of what Commission rules may require in this area.

8. Given the need for utilities to integrate their integrated resource plan (IRP), clean energy action plan (CEAP), and CEIP, what procedural outline should utilities' public involvement follow and what components (*e.g.*, advisory groups, workshops, comment periods, etc.) should be included? How should a CEIP public engagement and public involvement process emulate or differ from the proposed rules in the IRP rulemaking (*See Integrated Resource Plan Rulemaking*, Docket UE-190698, Staff Discussion Draft Rules at 17 (Nov. 20, 2019)) or the conservation planning process in WAC 480-109-110 and WAC 480-109-120? Please describe in detail.

PSE Response
As the Commission, customers, stakeholders, and utilities gain experience with the development of CEAPs, CEIPs, and how these work with IRPs, having some flexibility

in the public participation process will be important. PSE agrees that IRPs, CEAPs, and CEIPs form an integrated set of plans, with each subsequent plan covering a shorter time frame and providing increased specificity. To that end, the public participation process must be considered across all of these plans. Given the speed of initial rulemaking this year, and the short cycle for the first IRP, CEAP, and CEIP, the public participation process and output of each document may vary in the first cycle from a more integrated approach in the future. Also, different needs of different utilities may not clearly fit into a standardized public participation process.

The current IRP Staff Discussion Draft Rules make adjustments to the current IRP process, but at this time do not fully incorporate all of the provisions of CETA. In particular, the rules do not fully address the additional requirements in CETA to ensure that all customers are benefitting from the transition to clean energy, the equitable distribution of energy and non-energy benefits, reduction of burdens to vulnerable populations and highly impacted communities, long-term and short term public health and environmental benefits, reduction of costs and risks, and energy security and resiliency. Further, some of the programs contemplated by CETA, such as demand response, require a high degree of customer participation to be successful.

Because of the additional requirements of CETA, and the need for additional customer engagement in programs, the broad public participation process will need to be different than the stakeholder groups anticipated in the IRP Staff Discussion Draft Rules and the existing conservation planning process. Stakeholder groups are still an important part of the process, but CETA may require additional customer and partner industry engagement outside of these traditional stakeholder groups.

PSE is still developing its IRP Work Plan and continuing to engage in the rulemaking processes for the IRP, CEAP and CEIP. At this time, PSE cannot provide a specific public participation plan. Given the compressed timing for this initial IRP, CEAP, and CEIP, the public participation process for this first cycle may be different than in future cycles, which will be informed by lessons learned from this first cycle.

9. Would a requirement for a utility to file a draft CEIP for public input be useful or problematic if the plan were to be litigated? Please explain why or why not.

PSE Response

Filing a draft CEIP could be problematic if the plan were to be litigated. Because there is ample opportunity for customer input in the IRP process and once the plan is filed with the Commission, we do not see a benefit of filing a draft CEIP for public input. Furthermore, there will be very little time, especially in the first CEIP cycle, between when the Commission acknowledges a utility's IRP and when the Commission would prefer the utility to file its CEIP.

10. The Commission uses a planning and reporting cycle for conservation under the Energy Independence Act described in WAC 480-109-120. Should Commission rules similarly describe the level and frequency of reporting for demonstrating compliance with RCW 19.405.030, 040, and 050?

PSE Response
Yes, the Commission should adopt rules that set forth both the frequency and scope of all CETA compliance filings. Rather than replicating the framework for conservation planning and reporting under the Energy Independence Act, however, the Commission should consider the two key concepts described below and develop rules that appropriately capture CETA's unique long-term planning, target-setting, and compliance framework.

First, the Commission should carefully distinguish between *compliance* reporting and *progress* reporting. Both types of reporting may be necessary. But the Commission should tailor the frequency and scope of each consistent with CETA's requirements and statutory timelines. For example, informational status reports could be filed regularly and highlight a utility's progress towards realizing its CEIP specific targets and any interim targets, whereas compliance demonstrations are more appropriate at a major CETA milestone date—e.g., in 2030 when utilities must achieve the greenhouse gas neutrality standard in RCW 19.405.040.

Second, the Commission should recognize that compliance demonstrations may take different forms for each of CETA's different requirements. For example, demonstrating compliance with RCW 19.405.030—the provision requiring utilities to eliminate coal-fired resources from their portfolios by December 31, 2025—may occur on a different timeline and through a different level of evidentiary detail than for the clean energy requirements in RCW 19.405.040 and 050. In our response to Question 12, PSE offers additional thoughts on how utilities can demonstrate compliance with RCW 19.405.030. However, different timelines and evidence may be appropriate for RCW 19.405.040 and 050.

Ultimately, as described in response to the Commission's CEIP target questions, terminology is important. Utilities will set specific and interim targets in their CEIPs and work to meet them to the maximum extent possible in a rapidly evolving energy system; but those targets are not compliance requirements. CETA will usher in a period of rapid change, with utilities learning and adapting over time. This is why it is important that any CEIP specific targets or interim targets that are ultimately included in CEIPs for purposes of demonstrating pace or progress be viewed simply as illustrative metrics, not as mandatory compliance obligations.

11. Regarding the frequency of filings:
(a) Should utilities regularly file reports on their progress toward meeting compliance metrics?

PSE Response
Yes. As noted above, PSE agrees that utilities should file regular, informational status reports that describe their annual progress towards achieving both the specific and interim targets included in their Commission-approved CEIPs, in addition to the longer-term CETA compliance obligations (e.g., the requirements in RCW 19.405.030, 040, and 050). Annual informational status reports will provide stakeholders with transparency and regular access to current information. As discussed below, however, they should not serve as the vehicle for reopening a utility's Commission-approved CEIP absent exigent circumstances.

(b) Does or should the frequency of the filings depend on the existence of a rate plan?

PSE Response
No. PSE believes that annual informational status reports are important for demonstrating progress towards meeting a CEIP's specific targets, interim targets, and CETA's overall compliance obligations regardless of the existence of a rate plan. Additionally, compliance filings should be tied to CETA's statutory obligations and timelines. Consistent with the Commission's rules regarding evidentiary support for rate plans, however, PSE recognizes that additional information may be necessary to support rate plan spending. This information in support of a rate plan may not be appropriate for either CETA informational status reports or compliance filings. Instead, such information should be submitted in the applicable rate plan docket.

12. How must a utility demonstrate to the Commission that the utility has eliminated coal-fired resources from its allocation of electricity beginning in 2026, as required in RCW 19.405.030?

PSE Response
PSE believes demonstrating elimination of coal-fired resources can be satisfied through an attestation filed with the Commission that includes two components. First, utilities could attest to the fact that they either do not own any coal-fired electric generating facilities or do not use any such facilities to serve retail electric customer load. Second, for market purchases, utilities could attest to the fact that an appropriate company executive has reviewed all e-tag data for the prior calendar year, and no electricity from coal-fired resources (as defined in RCW 19.405.020(7)) was included in market purchases and therefore also not included in retail customer rates.

13. If the Commission has four years of investment information from a utility when approving its CEIP:
(a) How often should the Commission require the utility to update the investment plans to reflect the changing information?
(b) May the updates be informational filings, or should they be formal filings subject to Commission approval.

PSE Response
The Commission should not require frequent updates to Commission-approved CEIPs or associated investment information on a specific schedule. PSE recognizes the need for transparency during CEIP development and implementation and is committed to working with stakeholders to develop and implement CEIPs. However, avoiding unnecessary regulatory process will enable utilities to respond quickly to changing market conditions during the CEIP cycle to ensure successful program implementation.

Accordingly, to strike the appropriate balance between competing factors, PSE proposes a two-pronged approach for updating the Commission. This approach provides necessary transparency and allows utilities to engage in minor course corrections necessary to achieve required targets. But it also recognizes that a utility may elect to submit for re-evaluation and re-approval of major changes to Commission-approved CEIPs caused by unforeseen circumstances.

- Regular Informational Updates Not Requiring Commission Approval: As noted above, PSE has proposed to provide annual informational status reports highlighting its pace and progress towards achieving four-year CEIP specific targets, interim targets, and CETA's overall requirements. These annual reports could highlight any *de minimis* changes in program spending or implementation that are natural or expected, subject to a materiality threshold in the CEIP. But to ensure the stability of Commission-approved CEIPs, these informational filings should not require Commission approval or subject a utility's approved plan to unforeseen changes.

- Major Changes or Updates Requiring Commission Approval: On the other hand, where new information results in a major departure from the Commission-approved CEIP, utilities should be permitted to submit or refile more comprehensive revisions to the approved plan. Although the Commission should review and approve any such filings, the Commission should not require such filings on a prescribed timeline. Instead, utilities should have the option or flexibility to determine that significantly changed circumstances warrant the filing of a revised plan.

PSE believes this two-tiered approach is appropriate given CETA's aggressive goals and timelines. However, under any approach, the Commission should limit the possibility for frequent adjustments to approved plans. If plans, targets, investment amounts, or timelines are adjusted frequently—e.g., in response to annual informational filings—uncertainty for utilities and other parties could delay response to changing market conditions, which could delay reaching the goals of CETA or result in unnecessary costs.

Deferral of Major Projects under RCW 80.28.410

14. RCW 80.28.410 allows utilities to defer costs incurred in connection with major projects in the CEAP or that are identified in bids for resource acquisition. How should the Commission interpret "major projects" in this context? What metric should the utility use to identify major projects? How should these projects be included in the CEIP?

PSE Response

The Commission should utilize existing practice to interpret "major projects" in the context of cost deferrals pursuant to RCW 80.28.410. Under existing practice, the Commission does not impose a threshold or bright line rule for determining which costs might be allowed for deferred accounting. Instead, the Commission determines whether to grant a request for deferred accounting based on the facts and circumstances of each individual request. This treatment is also in line with paragraph 34 in the Commission's Used and Useful Policy Statement in Docket U-190531 where it states it will not propose a specific approach for determining which investments can qualify for provisional pro forma treatment, stating:

> *"The amended statute grants the Commission broad authority, and we decline to prescribe here a specific approach for identifying rate-effective period investment."*

This approach seems particularly appropriate at the outset of CETA implementation efforts as utilities and the Commission are in the process of understanding the appropriate ratemaking treatment for the significant investments that utilities will need to make in order to comply with the statute. Bright line rules could limit novel and creative uses for the concept of cost deferral that could help utilities move forward with the investments needed to comply with CETA while also benefitting customers (e.g., by potentially levelizing the rate impact of certain investments).

Accordingly, the Commission should determine whether to grant a request for deferred accounting pursuant to RCW 80.28.410 based on the facts and circumstances of each individual request, rather than promulgating a bright line test for major projects.

15. RCW 80.28.410 provides for the deferral of both the capital and the variable costs for new resources. Through the power cost adjustment mechanisms (PCAM), utilities recover only the variable power costs of resources. How should costs for new resources be treated in the PCAM in light of the additional deferral allowed under RCW 80.28.410?

PSE Response
PSE believes that the Commission should treat the variable power costs associated with resources with deferred costs pursuant to RCW 80.28.410 in a manner that is consistent with existing cost deferral practice. Under existing practice, the Commission has permitted the deferral of variable power costs (Deferred PCAM Costs) until new rates go into effect as a result of a Commission order in a utility's next rate proceeding.

The actual cost of fuel and transportation are deferred ("Deferred PCAM Costs"). The originating expense and the offsetting deferral entry would both be included in the monthly PCAM true-up calculation as a power costs. Deferred PCAM Costs are then credited by the market price of power used to determine the baseline rate in effect. The two entries result in Net Deferred PCAM Costs. The credit would also be included in the monthly PCAM true-up calculation as a power cost. This approach is based on the same logic that is used when new resources are acquired and put into rates – the baseline rate is increased by the PCAM variable costs for the new resource and reduced by avoided market purchases. This procedure provides the customer an offset to the deferred variable costs in the amount of the market power purchases built into current rates that will be replaced by the generation from the new resource during the deferral period. This method of deferral and treatment within PSE's PCAM (or PCA mechanism) was utilized and approved for PSE's Lower Snake River facility, which was deferred pursuant to RCW 80.80.060(6) and approved for recovery in UE-111048. Additionally, this method of deferral has an additional benefit in that it does not require formal adjustment to the Company's PCAMs.

a. Should the Commission require changes to the utilities' power cost adjustment mechanisms to match the cost of new resources with the benefits in compliance with the statute?

PSE Response
Please see the response to Question 15.

b. During the period of deferral allowed under Chapter RCW 80.28.410(1) for a new energy resource, should the Commission provide deferral within the power cost adjustment mechanism for the difference between the hourly marginal costs of

power production (or purchases) used to set the authorized power cost in effect during the deferral and the variable costs of the new energy resource not deferred under RCW 80.28.410(2)? If not, please explain why not? If so, should this change be requested as part of the CEIP, or through a separate proceeding?

PSE Response
Please see the response to Question 15.

c. During the period of deferral allowed under Chapter RCW 80.28.410(1) for a capacity resource, should the Commission provide an adjustment to the deferral within the power cost adjustment mechanism for the lower power costs resulting from the addition of a lower heat rate generation unit to the utility's portfolio? If not, please explain why not? If so, should this change be requested as part of the CEIP, or through a separate proceeding?

PSE Response
Please see the response to Question 15.

Compliance, Enforcement, and Penalties

16. RCW 19.405.090 provides that upon its own motion or at the request of the utility, and after a hearing, the Commission may issue an order relieving the utility of its administrative penalty obligation, if certain conditions are met. Does the Commission need to provide more guidance on the application of penalties and waivers of penalties in rule? If yes, please describe what additional guidance should the Commission provide.

PSE Response
The Commission does not need to provide additional guidance on the application of penalties and waivers of penalties in this rulemaking procedure. RCW 19.405.090 is clear about when penalties apply, the circumstances under which penalties may be waived, and the actions that the Commission must take if it relieves a utility of the administrative penalty. Additional guidance may become helpful as the Commission and utilities gain experience with the statute, but it does not appear necessary at this time.

Equitable Distribution of Benefits Questions

CETA's "equitable distribution of benefits" standard represents a significant change to the existing standards and practices that have traditionally governed regulated utility planning and operations in Washington.[4] PSE supports this enhancement and is fully committed to ensuring that its customers are part of the clean energy transformation. To

[4] *See* PSE's Initial Comments in the IRP Rulemaking, UE-190698, at 6 (Dec. 20, 2019).

this end, PSE looks forward to an iterative process, both during this rulemaking and during subsequent CEIP implementation, of working with the Commission and interested stakeholders to determine how best to incorporate this new standard into PSE's planning and operations.

17. RCW 19.405.040(8) states:

In complying with this section, an electric utility must, consistent with the requirements of RCW 19.280.030 and 19.405.140, ensure that all customers are benefitting from the transition to clean energy: through the equitable distribution of energy and nonenergy benefits and reduction of burdens to vulnerable populations and highly impacted communities; long-term and short-term public health and environmental benefits and reduction of costs and risks; and energy security and resiliency.

a. Please provide a list of costs and benefits (e.g., public health, pollution) that the Commission should consider when determining a utility's compliance with RCW 19.405.040(8).

PSE Response
CETA's equity standard is a *planning* standard meant to ensure that utilities incorporate certain equitable considerations upfront into the development of their CEIPs, with the overarching goal of ensuring that all customers benefit from the clean energy transformation. To achieve this goal, utilities will design their plans in accordance with CETA's three specific equitable planning criteria: (1) "the equitable distribution of energy and non-energy benefits and reduction of burdens to vulnerable populations and highly impacted communities"; (2) "long-term and short-term public health and environmental benefits and reduction of costs and risks"; and (3) "energy security and resiliency."

Consistent with this framework, below is an illustrative table outlining possible planning criteria for each of CETA's equitable planning categories. This table includes several elements discussed briefly at the Commission's February 5, 2020 equity workshop. PSE is not an expert in this space; however, PSE hopes the planning criteria identified below can be refined through additional discussion with the Commission and stakeholders to address all relevant non-energy benefit perspectives, especially regarding whether costs and benefits for certain criteria can be reasonable quantified.

RCW 19.405.040(8) Equitable Criteria	***Possible Planning Criteria***
"The equitable distribution of energy and nonenergy benefits and reduction of burdens to vulnerable populations and highly impacted communities"	• Tracking metrics regarding community engagement and participation in tailored programs • Incorporation of Department of Health's "cumulative impact analysis" into project siting considerations • Energy burden considerations • Reduced arrearages, carrying costs, and bad debt
"Long-term and short-term public health and environmental benefits and reduction of costs and risks"	• Relationship with CETA clean energy and greenhouse gas goals • Tracking air quality indicators or other public health criteria (e.g., criteria air pollutants or volatile organic compounds) • Targeted weatherization, clean energy, or efficiency programs for identifiable customer groups
"Energy security and resiliency"	• Design or valuation of certain programs to address key reliability metrics • Local microgrid development • Undertaking specific critical infrastructure projects at military installations, healthcare facilities, schools, and other designated facilities

b. Please provide a list of which geographic areas, populations, customer demographics, or other factors the Commission should consider when determining a utility's compliance with RCW 19.405.040(8).

PSE Response

At this time, PSE does not have any specific geographic areas, populations, or customer demographics to recommend that the Commission consider when determining a utility's compliance with RCW 19.405.040(8). Consistent with our response to question 17(a)

above, utilities may need to consider different factors or approaches to complying with RCW 19.405.040(8) that are tailored to the unique characteristics of their service territories. Additionally, the appropriate factors may change over time. For this reason, PSE does not recommend specifying factors in rule at this time.

For this first round of clean energy planning, PSE intends to consider, among other things, the Department of Health's cumulative impact analysis. To the extent it is completed and available, PSE hopes to apply it to PSE's service territory to look for ways the utility may better serve its customers. In addition, PSE intends to use the information collected from this year's Low-Income Needs Assessment to better understand why some of its income-qualifying customers currently are not being served by energy assistance programs.

18. In the Commission's IRP rulemaking in Docket UE-190698, many stakeholders commented that the Commission should determine compliance with RCW 19.405.040(8) as part of the CEIP process. If the Commission were to do so, what types of guidance on RCW 19.405.040(8) compliance should the Commission provide in its CEIP rules? If the Commission were to provide guidance on RCW 19.405.040(8) compliance in a form other than rules (e.g., an interpretive and policy statement), what type of guidance should the Commission provide? Please be as specific as possible in your responses.

PSE Response

PSE agrees that the Commission should determine whether a utility has complied with RCW 19.405.040(8) when evaluating a utility's filed CEIP. This approach is consistent with treating CETA's equity standard as a planning requirement that informs the utility's development and the Commission's evaluation of the CEIP, with the Commission ultimately determining compliance with RCW 19.405.040(8) when approving a filed CEIP. Accordingly, the Commission's rules should provide clear guidance that compliance with CETA's equity standard is determined when the Commission reviews a filed CEIP and determines that the portfolio of programs and targets designed by the utility satisfy the broad directive of RCW 19.405.040(8). During plan implementation, the Commission could then rely on utility informational status reports to determine how future planning processes to incorporate the provisions of RCW 19.405.040(8) can be improved upon for future planning cycles.

Some parties have suggested that the Commission should determine a utility's compliance with RCW 19.405.040(8) after CEIP implementation. A backward-looking compliance approach is unworkable under CETA and fundamentally at odds with the upfront planning process that CETA requires. Such an approach, if adopted, would lead to significant investment and planning uncertainty during the four-year CEIP period,

which could slow or diminish progress in implementing programs designed to achieve the goals in RCW 19.405.040(8).

Ultimately, utilities may design their plans and implement programs differently based on specific customer demographics and service territory considerations. Moreover, utilities may design or factor in different non-energy cost and benefit considerations. PSE is indifferent as to whether the Commission provides necessary guidance via rule language or policy statement addressing what elements, criteria, metrics, cost/benefit considerations, and other equitable factors should be included in a filed CEIP. But, taken together the factors outlined above may suggest that a policy statement describing key parameters of the planning process may be more suitable at this time.

19. Should a utility's demonstration of compliance with the requirements in RCW 19.405.040(8) include qualitative data, quantitative data, or both? Please explain your response. If you recommend qualitative data, which of the following approaches for approximating hard-to-quantify impacts are most appropriate: (a) service territory-specific studies; (b) studies from other service territories; (c) proxies; (d) alternative thresholds; or (e) another approach? Does your response depend on a particular factual scenario? If so, please describe the scenario and explain why the approach you recommend is best suited for that scenario.

PSE Response

PSE emphasizes the need for flexibility in demonstrating compliance with RCW 19.405.040(8). PSE acknowledges that quantifiable data is generally more easily incorporated into modeling, forecasting, budgeting, and planning practices, and that these practices will influence how utilities develop their CEIPs. However, PSE believes that both types of evidence may be necessary to demonstrate compliance with CETA's broad equity directive. Accordingly, PSE encourages the Commission to allow utilities to rely on both quantitative *and* qualitative data when demonstrating that a CEIP appropriately balances CETA's equitable planning requirements with the law's other requirements.

Moreover, PSE believes utilities should have some flexibility to determine the appropriate method for transforming hard-to-quantify qualitative data into quantifiable data. This is especially true for the first CEIPs that utilities will submit by January 1, 2022, which could then form the basis for further discussion and changes in subsequent plan periods based on lessons learned.

PSE's initial response here does not depend on a particular factual scenario. But if particular factual scenarios are identified in other comments, PSE looks forward to further discussion and analysis to explore those scenarios.

20. Please provide any existing data sources or methodologies of which you are aware for quantifying non-energy costs and benefits, and other equity-related impacts.

PSE Response
In response to utilities' 2018-2019 biennial conservation plans, the Commission directed the formation of the Statewide Advisory Group (SWAG). The SWAG considered several topics, which included: (1) treatment of Northwest Energy Efficiency Alliance (NEEA) savings; (2) areas of improvement to existing cost-effectiveness methodologies, including investigation of the Resource Value Test (RVT); and (3) discussing potential performance incentives. As part of its analysis into the RVT, in particular, the SWAG discussed which additional non-utility system costs and benefits should potentially be included in the RVT, as well as different approaches to quantifying "hard-to-quantify" benefits using different valuation methods. The SWAG's analysis and discussion was tailored to the topic of quantifying non-energy costs and benefits in the conservation context, however, and not utility resource planning more broadly. Accordingly, the Commission may wish to consider the SWAG's final report and underlying analysis of non-energy benefit quantification methods, as this information may help inform the Commission's analysis of comments received here. PSE looks forward to the Commission's proposal and to discussing this topic further.

21. How should the Commission interpret RCW 19.405.060(1)(c)(iii)? How are the requirements in that statute different than the requirements in RCW 19.405.040(8)?

PSE Response
The Commission should interpret RCW 19.405.060(1)(c)(iii) as merely one element of several that the Commission must determine are satisfied before it may "periodically adjust or expedite timelines."[5] The other elements that must also be satisfied are described in RCW 19.405.060(1)(c)(i), (ii), and (iv), and require additional evidentiary showings related to system reliability impacts, cost, and avoiding customer harm.

[5] RCW 19.405.060(1)(c) provides, in part, that "[t]he commission may periodically adjust or expedite timelines if it can be demonstrated that the targets or timelines can be achieved in a manner consistent with the following: (i) Maintaining and protecting the safety, reliable operation, and balancing of the electric system; (ii) Planning to meet the standards at the lowest reasonable cost, considering risk; (iii) Ensuring that all customers are benefiting from the transition to clean energy: Through the equitable distribution of energy and nonenergy benefits and the reduction of burdens to vulnerable populations and highly impacted communities; long-term and short-term public health and environmental benefits and reduction of costs and risks; and energy security and resiliency; and (iv) Ensuring that no customer or class of customers is unreasonably harmed by any resulting increases in the cost of utility-supplied electricity as may be necessary to comply with the standards."

Together, these provisions create a high burden of proof for adjusting or expediting CEIP timelines, which PSE believes is appropriate given the complexity and interrelated nature of CEIP programs, timelines, targets, and budgets. Even discrete changes to an approved CEIP cannot be considered in isolation because they come with associated changes to anticipated benefits and costs. Furthermore, it will be challenging for the Commission to require changes to timelines without fully considering the overall changes to benefits and costs.

On the other hand, the equitable distribution of benefits standard in RCW 19.405.040(8) is a planning standard that requires the clean energy planning process to consider certain equitable inputs necessary for the Commission to determine that all customers are benefitting in the transition to greenhouse gas neutrality. RCW 19.405.040(8) is similar to RCW 19.405.060(1)(c)(iii), but distinct in its application to the Commission's evaluation of whether a utility's CEIP satisfies CETA's equitable planning criteria. Ultimately, given the high threshold for adjusting timelines, the Commission should interpret RCW 19.405.060(1)(c)(ii) to allow for adjustments to "timelines" only in limited circumstances or in the period after the IRP progress report.

Incremental cost of compliance

Before providing specific responses to the questions posed by the Commission, PSE feels it is important to articulate its approach to considering the incremental cost of compliance under CETA and provide context to the responses below. As noted in the introduction, PSE has the largest compliance obligation of any utility in the state, and in order for the company to help make CETA a success, it will require simple and actionable rules that do not increase complexity and uncertainty in the ability to make decisions, acquire resources, offer programs, identify transformation projects, maintain reliability, and manage costs. At this stage, it is important for rules to be simple, predictable, easy to administer, and allow for utilities to act. This applies to rules surrounding the incremental cost of compliance.

PSE considers the incremental cost of compliance one option for utilities to help manage customer costs while meeting CETA targets. A utility may or may not need to rely on this option in meeting CETA targets, but a utility should have the discretion to rely on this option in seeking Commission approval for its CEIP, and must demonstrate its impact on the CEIP targets and investment plan. Therefore, these rules need not be overly complex.

The incremental cost of compliance rules being written by the Commission should apply only to the investment plan contained within the utility's CEIP to achieve a balanced portfolio above business as usual spending. These rules do not apply to other utility ratemaking processes in place for business as usual utility spending and investments. The methodologies for calculating the incremental cost of compliance should be simple and

work with each individual existing utility methodology. This will allow utilities to act more quickly. The Commission will ultimately approve the CEIP and allow the utility to execute on its targets and manage costs included in the CEIP investment plan. The utility will demonstrate and be judged during the approval of its next CEIP on whether it was successful in its reliance on the incremental cost of compliance option. In judging a utility's incremental compliance and rate recovery, it is important these rules reflect that a utility will not be able to track exact CETA versus non-CETA spending on a dollar-for-dollar basis. PSE recognizes that the CEIP and cost recovery are linked, but the rules should only apply to the CEIP investment plan and allow for spending true-ups and rolling over balances between four-year CEIP cycles. Hopefully this explanation provides context for PSE's responses below.

22. RCW 19.405.060(3) requires an electric investor-owned utility to use its weather-adjusted sales revenue to customers as reported in its most recent Commission basis report (CBR) as part of its incremental cost calculation. Each investor-owned utility is different in how it reports its weather-adjusted sales revenues and adjusts its sales for "weather."

a.) Should the Commission standardize its CBR rules to be able to effectively implement the incremental cost calculation requirements in RCW 19.405.060(3)? If so, please describe how the Commission should revise those rules.

PSE Response

No, it is not necessary for the Commission to standardize its commission basis report (CBR) rules to effectively implement the incremental cost calculations requirements in RCW 19.405.060(3). While utility CBR methodologies do vary slightly having been established in previous GRCs or power cost adjustment proceedings, it is unnecessary and burdensome to attempt to standardize those methodologies for CETA's incremental cost of compliance mechanism through a rulemaking. A rulemaking to standardize CBR rules at this time introduces unnecessary controversy that could potentially slow CETA implementation. Companies should continue to follow existing CBR rules and guidance established in previous GRCs or other proceedings. At most, the Commission could issue a policy statement on elements to include in a utility's "weather adjusted sales revenue" line item on the CBR for CETA incremental cost compliance purposes. For example, PSE uses rider mechanisms to collect and administer property taxes and conservation. Those elements are currently not part of its CBR sales revenue, but if the commission feels those are important elements to include in a CBR for incremental cost compliance calculation, it should provide guidance.

b.) Can the Commission allow each utility to use a different weather normalization method and still create a consistent methodology for calculating incremental cost?

PSE Response
Yes, the Commission can allow each utility to use a different weather normalization method for calculating incremental cost. A utility's GRC should remain the appropriate venue for setting practices to weather adjust its energy sales. Attempting to standardize weather normalization across utilities is a controversial and unnecessary item to comply with CETA or calculate incremental compliance costs. A protracted rulemaking on this topic creates uncertainty and could have broader implications beyond the narrow use of the incremental cost of compliance under the CEIP. Utilities are already familiar with their weather normalization methods and should be allowed to continue using them in this process.

23. RCW 19.405.060(3)(a) states that an electric investor-owned utility complies with its Clean Energy Implementation Plan if, over a four-year compliance period, the utility's average incremental cost to comply with RCW 19.405.040 and 19.405.050 increases by two percent over the utility's weather-adjusted sales revenue.

a.) If a utility relies on the incremental cost compliance option as detailed in RCW 19.405.060(3)(a), when should the Commission determine whether the utility has achieved the incremental cost threshold for compliance? For example, should the Commission determine the utility's compliance based on a forecast, at the time the utility files its Clean Energy Implementation Plan, based on actual data at the conclusion of the four-year period or through interim reporting, or a combination of these options?

PSE Response
The Commission determination should occur upfront with the approval of the CEIP. The Commission should rely on the utility forecast and investment plan included within the CEIP. Again, the incremental cost of compliance is one tool in the broader context of CETA compliance that provides rate protection while giving utilities room to act within sideboards of the CEIP. Creating a process that ties the determination to end-of-plan actuals or interim reporting creates an overly complex process and reduces the incentive for utilities to act boldly within the sideboards of the CEIP. PSE will provide interim reports, but determination should not be tied to those informational reports. The better approach is to make the determination at the time the utility files its CEIP and include a true up accounting mechanism for under or over achievement as described below in response to subpart (b).

It is important to note that the Commission has other tools for judging utility spending, compliance, etc. For example, if a utility achieves its 2% incremental cost of compliance, the company still has prudence risk.

b.) If the Commission allows a utility to forecast its reliance on the incremental cost of compliance option, and the utility's actual incremental costs increase more or less than two percent averaged over the four-year period, would a true-up mechanism be allowed and necessary to reconcile the differences between the actual and the forecasted incremental cost?

PSE Response
Yes, the Commission should require a true up mechanism to reconcile differences between the actual and forecasted incremental costs. The Commission could consider a mechanism similar to PSE's Purchased Gas Adjustment mechanism, which allows for a company forecast and includes a dollar-for-dollar true up of prudently-incurred costs later. In calculating actuals for the true-up mechanism, utilities should be allowed to include its authorized return on rate base in its filing.

24. When using the incremental cost compliance option, RCW 19.405.060(3)(a) requires all of a utility's costs to be directly attributable to the actions necessary to comply with RCW 19.405.040 and RCW 19.405.050. How should the Commission require a utility to demonstrate that such actions were "directly attributed and necessary" for the utility to take only to comply with CETA?

PSE Response
The utility investment plan within the CEIP (and its approval) should include a calculation of the incremental costs that are necessary to comply with RCW 19.405.040 and .050. The approval of the CEIP, including the calculation, forms the basis for determining incremental costs in the future. The forward looking CEIP would have the best information at the time including interim targets, investment plans/budgets, stakeholder input, etc. As part of the CEIP, the utility would be required to include a simple analysis demonstrating which actions and investments were required by CETA. The utility would maintain two streams of analysis to show the difference between business-as-usual and CETA-related spending. The exception to this methodology would be for energy efficiency, as those expenditures are based on conservations savings that are driven by calculations that already incorporate CETA-required attributes, such as increased avoided costs. As such, energy efficiency may need to be tracked and accounted for differently. The true-up mechanism discussed above would help to mitigate differences between forecasts and actuals within the 2%. Finally, it is important to note that approval of the CEIP does not excuse the utility from its prudence risk related to any investment.

25. RCW 19.405.060(3)(b) states that if a utility relies on subsection (a) (incremental cost as a basis of compliance), the utility must demonstrate that it has "maximized investments in renewable resources and non-emitting electric generation prior to using alternative compliance options." In what type of proceeding should the

Commission require a utility to demonstrate that it has maximized investments in renewable resources and non-emitting electric generation? What documentation should the Commission require the utility to provide?

PSE Response
The CEIP is the appropriate proceeding for the Commission to determine whether a utility has maximized investments in renewable resources and non-emitting electric generation. The Commission could make clear in its rules that the utility must include the following documentation in its CEIP: interim targets; investment plans; budget estimates; cost estimates; alternatives analysis (including cost estimates); attestation of management approval; and progress toward meeting equity goals.

Cost information within the CEIP

Conservation plans include an element describing program budgets and cost recovery approaches for different resources. (*See* WAC 480-109-120 and 130.) As an example, a utility must recover transmission and distribution investments through a general rate case, while the utility may recover program costs through a conservation tariff rider. Further, changes to RCW 80.04.250 allow the Commission to provide for rate changes up to 48-months after the initial rate effective date. Finally, the Commission must approve a utility's CEIP, in the context of which the Commission may approve new cost-recovery approaches.

26. How should the utility address investment planning and cost recovery in its CEIP?

PSE Response
PSE envisions that the CEIP will be similar in nature to the conservation plans described above. With respect to investment planning and cost recovery, the CEIP will include descriptions of program and investment budgets and the cost recovery approaches for each, which will illustrate the costs associated with CETA compliance. Actual cost recovery for these programs and investments, however, will occur in separate processes. PSE envisions conservation costs continuing to be recovered through existing mechanisms. Other costs may be recovered through base and/or rider rates, as appropriate, including as part of a rate plan.

27. How could a utility's CEIP be used to set rates prospectively? Would using a CEIP to set rates prospectively be in the public interest? Please explain your answer.

PSE Response
On January 31, 2020, the Commission issued a policy statement on property that becomes used and useful after a rate effective date (Policy Statement). In the Policy

Statement, the Commission opined that recent amendments to RCW 80.04.250 clarified that it has the authority to use appropriate methodologies to change rates up to four years after the rate effective date, and to value property placed in service after the rate effective date.

The Policy Statement also establishes a process that the Commission will use to value property that is, or will become, used and useful by or during the rate effective period, and envisions the potential application of this process to utilities' CEIPs. Generally, the process entails identification of investments that will be placed in service after a rate effective date, review of those investments, and approval of those investments. PSE supports using this process to prospectively set rates for the recovery of CEIP investments when appropriate.

PSE also supports the Commission's tacit acknowledgment in the Policy Statement that using a CEIP to set rates prospectively may be in the public interest. Prospective ratemaking may be a useful tool to use as utilities make the significant investments that will be required to achieve CETA's public policy goals, and help moderate price changes for customers.

28. Which elements of a CEIP should a utility recover through general rate cases? Which elements of a CEIP are appropriate for a cost recovery mechanism?

PSE Response
PSE believes that it is likely that some elements of a CEIP will be appropriate for a cost recovery mechanism, but cannot specifically identify which ones at this early stage of CETA implementation. Since cost recovery mechanisms vary across utilities, the appropriate mechanism for cost recovery of CEIP investments will depend on the specific facts and circumstances for each utility and their respective CEIPs. As discussed in the response to Question 26 above, CEIPs should include program and investment budgets, and the cost recovery approaches for each.

29. Should the Commission require a utility to provide in its CEIP (a) information on program budgets related to incremental programs for compliance with CETA; (b) descriptions of, and details about, capital budgeting for all investment; or (c) both?

PSE Response
The Commission should require utilities to provide some high-level information on program budgets related to incremental programs for compliance with CETA. For capital investment budgets for new resources, PSE can reasonably provide informational-level budgets only. While PSE is not concerned about providing descriptions of, and details about, capital budgeting for all investment in principle, from a practical perspective this

information will be difficult to provide because it will not be available until the utility identifies the specific investments that it will use to comply with CETA. Additionally, federal financial disclosure laws may limit the information that utilities can provide in this regard.

PSE appreciates the opportunity to provide responses to the questions identified in the Commission's Notice of Opportunity to File Written Comments. Please contact Kara Durbin at 425-456-2377 for additional information about these comments. If you have any other questions please contact me at (425) 456-2142.

Sincerely,

/s/ Jon Piliaris

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