

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of Puget Sound Energy's
Draft 2021 Request for Proposals for
All Generation Sources

DOCKET UE-210220

**COMMISSION STAFF COMMENTS REGARDING
PUGET SOUND ENERGY'S 2021 REQUEST FOR PROPOSALS
FOR ALL GENERATION SOURCES PURSUANT TO
RCWs 19.405, 19.280 AND WAC 480-107**

May 17, 2021

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Introduction

On May 4, 2020, Puget Sound Energy (PSE or Company), filed with the Washington Utilities and Transportation Commission (Commission) Draft Requests for Proposals (RFPs) regarding Demand Response Programs in Docket UE-200413, and regarding All Generation Sources in Docket UE-200414. After some delays and discussion of PSE's system need, the 2020 RFP process concluded on October 15, 2020, with the Commission's issuance of Order 04 to both dockets. The order granted PSE's request to withdraw its 2020 RFPs and granted a waiver of the WAC requirement to issue an RFP, with two conditions: (1) that PSE work with commission staff (Staff) and other stakeholders to address issues raised over the course of the two dockets, specifically identifying the proposal to use an independent evaluator (IE), and (2) that PSE file an all-source RFP and DR-focused RFP by April 1, 2021.

PSE filed a petition for approval of the Company's preferred IE for both RFPs on January 19, 2021, under Docket UE-210037. The Commission issued an order approving the Company's selection on January 28, 2021. On March 15, PSE filed a petition requesting two amendments to Order 04: (1) to expand the scope of the DR RFP to distributed energy resources (DER), and (2) to extend the filing date for the DER RFP to November 15, 2021. The Commission granted this petition. The requirement in Order 04 that PSE file an all-source RFP by April 1, 2021, remained. This requirement was fulfilled with the initial filing to this docket, the draft 2021 Request for Proposals for All Generation Sources (Draft RFP). On April 6, 2021, the Commission issued a Notice of Opportunity to Provide Written Comments (Notice). Consistent with WAC 480-107-017(2), the public participation schedule includes a 45-day period for public review and comments. These comments are filed pursuant to that Notice.

Per WAC 480-107-017(4), the Commission "will approve, approve with conditions, or suspend the filed RFP... within seventy-five days after the utility files its RFP." Staff therefore anticipates that the Commission will consider this Draft RFP at an open meeting on or before June 15, 2021; per the Notice, the last regularly scheduled Commission open meeting during this review period is on June 3, 2021. The Commission will consider the information obtained through these bidding procedures when it evaluates the performance of the utility in rate and other proceedings.

Background

PSE's system needs

Capacity need: PSE's energy supply portfolio is undergoing significant changes as coal resources retire and as PSE adjusts its resource strategy to account for increased risk associated with significant reliance on – and assumed availability of – short-term market purchases. The Draft RFP describes a capacity need of 1,506 megawatts (MW) by 2027, after the acquisition of cost-effective conservation resources and inclusive of almost 1500 MW of market purchases.¹ If PSE carried forward its market reliance assumptions, the capacity need identified in the 2021 IRP before the acquisition of cost-effective conservation resources is 907 MW, with 527 MW of

¹ Docket UE-210220, PSE's 2021 All-Source Request for Proposals for Renewable and Peak Capacity Resources, p. 10 (filed April 1, 2021).

system need after conservation and market purchases.²

CETA-compliant energy need: The Clean Energy Transformation Act (CETA) requires the state's electric utilities to fully transition to clean, renewable, and non-emitting resources by 2045. The act sets the following *mandatory targets*:

- 2025 – All electric utilities must eliminate coal-fired generation serving Washington state customers.
- 2030 – All electric utilities must be greenhouse gas neutral—for example, remaining carbon emissions are offset by renewable energy, energy efficiency, carbon reduction project investments, or payments funding low-income assistance.
- 2045 – All electric utilities must generate 100% of their power from renewable or non-emitting resources.

These requirements drive the Company's need for a significant amount of megawatt-hours (MWhs) generated by CETA-compliant resources. Following a linear ramp to the Company's forecasted CETA-compliant energy needs in 2030, PSE estimates that it will need about 1,669 GWhs (gigawatt-hours; 1 GWh is equivalent to 1000 MWhs) in 2026.³

Revision to draft RFP

On May 10, 2021, PSE filed a revised Draft RFP (Revised Draft RFP) updating the Company's capacity needs to reflect recent near-term resource acquisitions, such as the five-year agreement with Public Utility District No. 1 of Chelan County and an extension of an agreement for a share of the Wells Hydroelectric Project, both of which are CETA-compliant resources.⁴ The capacity need description above is based on the Company's revised Draft RFP remains unchanged at 1,506 MW in 2027. PSE's adjustment to its CETA-compliant energy needs in 2026 – from 1942 GWh in the April 1 filing to 1669 GWh in the May 10 revision – reflects these recent changes.

Staff notes PSE updated its resource need within weeks of submitting its final IRP. Staff believes the adjustments are reasonable, and appreciates PSE's efforts to update the draft RFP before the public comment period closes. The revision represents a roughly 14 percent reduction in CETA-compliant energy needs in 2026. While this 14 percent reduction is meaningful, Staff anticipates that the adjustment is unlikely to change a prospective bidder's decision to participate in the RFP due to the timing related to the IRP's demonstration that the utility has a resource need within four years.

Recently updated rules governing RFPs

The Commission finalized its Purchase of Electricity rulemaking in Docket UE-190837 with the issuance of General Order R-602 on December 28, 2020. This filing is the first RFP to be come before the Commission under the revised rule framework. Among other requirements, [WAC](#)

² Docket UE-200304, Puget Sound Energy's Final Integrated Resource Plan, p. 1-9 (filed April 1, 2021) (2021 Final IRP). Staff notes that WAC 480-107-009 requires a utility to issue an all-source RFP if a resource need is identified, including needs that can be fully met by cost-effective conservation and DR resources.

³ Docket UE-210220, PSE's Revised 2021 All-Source Request for Proposals for Renewable and Peak Capacity Resources, p. 10 (filed May 10, 2021) (Revised Draft RFP).

⁴ Cover letter to Revised Draft RFP, p. 1.

[480-107-025](#) requires that utility RFPs include the following contents:

- Definition of the utility's the resource need, including specific attributes or characteristics the utility is soliciting
- Request for information identifying a bid's impacts on customer benefits, especially as contained in the utility's CEIP;
- Explanations of specific ranking procedures and assumptions used to evaluate bids, including a sample evaluation rubric; and
- Minimum bidder requirements, including for financial security requirements and the rationale for such requirements.

Staff assessment of PSE's Draft RFP

Compliance with rules

Staff's review is guided by rule and statute. [Chapter 480-107 WAC](#) "establish[es] the requirements for various utility solicitations and procurements, including provisions governing competitive solicitations, all-source RFPs, targeted RFPs, independent evaluators and system emergencies."⁵ PSE provided as a part of the cover letter for this filing a table cross-referencing the requirements in WAC with the parts of the filing fulfilling said requirements. Staff appreciates this clear documentation of its compliance efforts. Staff also appreciates the added clarification in the Revised Draft RFP that the social cost of greenhouse gasses will be "included as a cost adder to emitting resources."⁶

As a threshold matter, Staff believes that the draft filing satisfies most of these regulations, but has concerns regarding whether the Draft RFP sufficiently complies with the following requirements:

- WAC 480-107-025(4): Staff questions whether Section 4 of the Draft RFP and Exhibit A satisfy the requirement to "include a sample evaluation rubric that **quantifies, where possible**, the weight the utility will give each criterion during the bid ranking procedure," and whether these components of the RFP provide "a detailed explanation of the aspects of each criterion that would result in the bid receiving higher priority." For example, Page A-2 in Exhibit A specifies that the quantitative metrics will comprise 70 percent of the overall bid score, and includes a list of cost factors in Table 1.⁷ The lack of detail within this list or any reference to weighting of the criteria is a missed opportunity to provide guidance that could allow bidders to better tailor bids to PSE's system needs. Staff is engaging the Company to explore what level of detail and transparency is feasible and appropriate. *Recommendation:* PSE should increase the transparency of its ranking procedure by providing, where possible, the weights assigned to each metric. PSE should also develop and include a sample evaluation rubric as part of its description of the evaluation process.
- WAC 480-107-025(7): On page 41 of the Draft RFP, PSE describes credit requirements expected of bidding entities. Staff was unable to find a narrative providing "the rationale for such requirements."

⁵ WAC 480-107-001(1).

⁶ Revised Draft RFP, page A-3.

⁷ Revised Draft RFP, Exhibit A, page A-2. Table 1: Proposal cost factors that impact PSE's overall cost.

Recommendation: Augment Section 5 to explain why, for example, PSE's requirement that bidders provide performance assurance will improve the potential results of the RFP.

DER RFI Timing

On the same day PSE filed this Draft RFP, the utility also submitted a draft request for information (Draft RFI) soliciting information on distributed energy resources (DERs), including demand response (DR) resources.⁸ The Company committed to filing this RFI in preparation for an RFP process focused on DERs, which will be filed on or before November 15, 2021.⁹ The Draft RFP does not explicitly dissuade bidders of DERs, including DR resources, from submitting a proposal through this all-source RFP process. Staff hopes that the DER-focused RFP includes improved guidance to DER bidders and a bid evaluation system augmented both the DER RFI and PSE's RFP for virtual power plant (VPP) platforms.¹⁰

While Staff generally supports the Company's proposal to delay the DER-targeted RFP,¹¹ the adjusted timing creates complications and potential variations in PSE's evaluation approaches from one RFP to the next. Staff expects PSE to ensure that the resources acquired through these two separate RFPs result in a cohesive and optimized portfolio of resources meant to meet PSE's system needs and regulatory obligations. These processes should be coordinated for co-optimized results, placing each resource on an equal footing for a comparative evaluation of **all resources** and **potential changes to existing resources** for achieving the clean energy transformation standards in WAC 480-100-610 at the lowest reasonable cost.

Recommendation: On page 24 of the Revised Draft RFP, the footnote of Table 6 states, "PSE anticipates that it would complete its evaluation of these resources [bids from the DER-focused RFP] around the time the All-Source RFP short list is expected to be selected." Staff recommends including this context in Section 3 of the RFP as well, or otherwise including some explicit indication that that these tandem RFP processes will be managed such that the resource decisions from one RFP will complement the other. Doing so would align with WAC 480-107-009(4), which requires targeted RFPs issued in conjunction with an all-source RFP "must fairly compare all resource options in its **combined analysis**."

Customer benefits from transition to clean energy

CETA requires that an electric utility must, consistent with the requirements of RCW 19.280.030 and 19.405.040, ensure that all customers are benefiting from the transition to clean energy. Staff believes the RFP's requirement that bidders submit a "CETA Equity Plan" is a thoughtful and productive step toward aligning RFP outcomes with CETA's customer benefit provisions.

PSE is actively working on its Clean Energy Implementation Plan (CEIP), which will contain the Company's proposed customer benefit indicators (CBIs).¹² These CBIs should guide the

⁸ Docket UE-200413, Draft Request for Information for Distributed Energy Resources (filed April 1, 2021) (Draft RFI).

⁹ Docket UE-200413, PSE's Petition for Amendment to Order 04 (filed March 15, 2021). The petition was granted by the Commission in Order 05 (March 25, 2021).

¹⁰ Draft RFI at 6. PSE referenced its intent to issue a voluntary RFP for VPP platforms in its Draft RFI. Staff believes that this RFP is subject to most of the requirements of Chapter 480-107 WAC per WAC 480-107-011(3).

¹¹ Docket UE-200413, Open Meeting Memo for the March 25, 2021, Open Meeting (filed March 25, 2021).

¹² See WAC 480-100-640(4)(c).

Company's efforts to "ensure that all customers benefit from PSE's transition to clean energy."¹³ PSE augmented its draft RFP to clarify that the RFP's Phase 2 may include additional analysis and consideration of these CETA customer benefit provisions and CBIs. The CEIP will also identify vulnerable populations and highly impacted communities.¹⁴ Ideally, the RFP would offer more detail and guidance to bidders, but given the work-in-progress status of the CEIP, it is understandable that Draft RFP does not provide much guidance.

Equity is one of many lenses which PSE and stakeholders may use when considering the Company's obligation to ensure that all customers benefit from the transition to clean energy. CETA directives related to public benefits include:

- Equitable distribution of energy and nonenergy benefits;
- Reduction of energy burdens to vulnerable populations and highly impacted communities;
- Tracking changes to long-term and short-term public health and environmental benefits; and
- Maintaining energy security and resiliency.¹⁵

Staff suggests adopting the language used in the IRP and CEIP when discussing these requirements; in short, the broader term "customer benefit provisions" may be helpful when referring to these components of CETA.

Recommendation: PSE's CEIP is due on October 1, 2021, and the Commission is likely to approve, approve with conditions, or suspend the CEIP before 2022. Staff suggests the Company consider including in its RFP timeline an opportunity for bidders to revise and augment their CETA Equity (or Customer Benefit) Plans, perhaps by January 31, 2022. Per the RFP schedule,¹⁶ PSE would receive these bid updates during its Phase 1 screening process and selection of Phase 2 candidates, allowing for thorough consideration of each bid in the context of a finalized CEIP. This approach would align with WAC 480-107-025(2), which requires the utility to request "information related to indicators approved in the utility's most recent CEIP, including customer benefit indicators, as well as descriptions of all indicators."

Portfolio Screening Model and IRP tools for bid evaluation

PSE states that it will use its Portfolio Screening Model (PSM) as the primary portfolio evaluation tool in Phase 1 and Phase 2 of its evaluation process.¹⁷ PSM was used in previous IRP cycles, but in the 2021 IRP, PSE moved its long-term capacity expansion modeling to a more sophisticated modeling platform called Aurora. Using modeling tools separate from those used in the IRP to evaluate bids diverges from PSE's historical practices and from industry norms. PSE references Aurora and Plexos in the Draft RFP, but does not specify when and how these models might be used in evaluating bids, and at what phase.

¹³ WAC 480-100-610(4)(c).

¹⁴ WAC 480-100-640(4)(a) and (b).

¹⁵ WAC 480-100-610(c)(i) though (iii).

¹⁶ Revised Draft RFP at 24, Table 6.

¹⁷ Revised Draft RFP at 28.

Staff understands that PSM is easier and faster to use, and appreciates that the RFP process must balance analytical rigor with workload management and efficiency. However, it is not clear to Staff whether the use of an analytical tool outside the IRP toolkit can nonetheless lead to a ranking system that is “consistent with the avoided cost methodology developed in the IRP,” as required by WAC 480-107-035(1).

Recommendation: PSE should consider adopting its IRP modeling tools as the primary bid evaluation toolset, at least for Phase 2 of the RFP process. In the alternative, PSE should demonstrate that PSM's ranking outputs so closely mirror the IRP toolset's outputs that using PSM is very likely to rank bids identically to the IRP toolset.

Capacity need – glide path for reduction of market reliance

PSE's decision to move away from the assumed availability of market purchases was a late addition to the IRP, and did not benefit from thorough discussion and vetting through the IRP public participation process. While PSE's intention to reduce its reliance on a dwindling market seems like a reasonable goal, Staff questions whether the linear glide path described in Table 2 of the Revised Draft RFP represents an optimized approach to reducing this reliance.¹⁸ Staff provides more questions related to market reliance, below.

Intake process – automated screening of bids

On page 25 of the Revised Draft RFP, PSE describes an “automated intake of proposals through a newly designed web platform.” Staff appreciates that PSE must balance efficiency with comprehensive review, and views this software-based approach as a positive development. However, an automated rejection of a bid due to a mistyped data entry or misunderstood direction for a specific field could result in a rejection that is not warranted. In discussion with the IE, Staff understands that there will be some manual review of those bids that are rejected through the automated screening, which mitigates this risk. The bidders will also be notified and can address any technical snags.

Staff notes that the review of PSE's Draft RFP did not include an assessment of the Excel form's usability. Staff hopes and anticipates that any challenges or technical snags will be raised by bidders and addressed by the Company. In addition, the bidders' conference in July 2021 will be a good opportunity for PSE to provide an orientation of this form.

Bid evaluation and effective load carrying capability calculations

Staff raised concerns with PSE's approach to effective load carrying capability (ELCC) assessment for generic resources in the Company's draft IRP.¹⁹ It appears that those calculations remain substantively unchanged in the Company's final IRP, and hence are seen on page 12 of the Revised Draft RFP. Staff is not convinced that the ELCC estimates for energy storage resources are reasonable in view of the much higher calculations of similarly situated utilities. Also, Staff may have a differing understanding of whether ELCC estimates are inclusive of the possibility of forced outages during a peak event; if forced outages were included, then the ELCC valuations for thermal resources could not be the 100 percent valuations shown on Figure

¹⁸ Revised Draft RFP at 10.

¹⁹ Dockets UE-200304 and UG-200305, Staff's Comments Regarding PSE's Draft Integrated Resource Plans (filed Feb. 5, 2021).

4. Staff suggests a review of these inputs to the RFP Phase 1 analysis.

Evaluation of resources with potential sub-hourly benefits

The Draft RFP provides an hourly representation of PSE's system needs, and requests information from bidders on an hourly basis. It is not evident in PSE's description of its bid evaluation whether sub-hourly costs or benefits will be considered. Staff suggests addressing this nuance in the bid evaluation framework.

Success fee

Staff continues to discuss the inclusion of a success fee for those RFP participants whose bids result in executed contracts. In discussions with the IE, Staff understands that requiring a success fee is not particularly common but is a known industry practice. Staff suspects that requiring a success fee will result in slightly higher bids to offset the cost to the bidder, and may dissuade some bidders. Staff would appreciate more information on this industry practice, including some evidence for its meaningfully lowering costs to utilities and ratepayers.

Demand Response Addendum – Exhibit K

Staff provided a thorough review of DR resources and PSE's RFP process in the 2020 RFP cycle, and will engage deeply on this topic when PSE files a DER-focused RFP in about six months. Still, the contents of Exhibit K raised some concerns. On Table 1 of Page K-2, the list of benefits from DR resources strikes Staff as limited, or at least under-described. For example, a location-specific delivery system deferral benefit might be included in "Avoided transmission and distribution costs," or it might be a discrete type of quantifiable benefit. Similarly, ancillary services like ramping and spinning/non-spinning reserves may be contemplated within "avoided capacity costs" or "avoided energy costs," or could comprise their own category of avoided costs that some DR resources could provide. Staff encourages the Company to offer more information. Also, the figures presented do not seem to align with the peak capacity credit for DR as shown in the IRP.²⁰ Staff recommends revising this exhibit for clarity and reconciling any apparent discrepancies with the IRP.

Washington Offshore Wind

Considering PSE's sizeable CETA-driven resource need and the constrained transmission paths to reach wind resources matching PSE's system need, Staff is heartened to see "WA Wind Offshore" in the list of generic resources and assumed ELCC values described in Figure 4 of the Draft RFP.²¹ Staff asks PSE to ensure that offshore wind developers are included in the utility's outreach efforts to potential bidders.

Questions to PSE

Based on the requirements set forth in Chapter 480-107 WAC, Staff poses these remaining questions to inform the recommendation provided to the Commission when this docket is considered at an open meeting.

Joint DR and All-Source Assessments: In its Draft RFP, PSE notes resources that are

²⁰ 2021 Final IRP, page 7-32, Figure 7-21: Peak Capacity Credit for Demand Response.

²¹ Revised Draft RFP at 12.

dispatchable, are shaped to meet winter peak needs, or with generation profiles that align well with PSE's load shape will *perform best* in PSE's analysis.²² While the amount of detail PSE has supplied within its Draft All-Source RFP is generally adequate, Staff notes this solicitation is not occurring alone. PSE cites concurrent benefits of issuing a DR RFP along with this All-Source RFP. How will the results or shortlists of both RFPs be jointly assessed?

Staff encourages PSE to delineate the interactive effects between the DER-targeted RFP to be filed by November 15, 2021, and this all-Source RFP. To the extent possible, PSE should detail how both candidate shortlists may be considered in combination, possibly within a subsequent combined assessment. This could help clarify how PSE intends to achieve the outcome of a cohesive portfolio of resource acquisitions.

Exhibit I – Energy Storage System Location Study: Staff commends PSE for including this analysis of its substations, which provides energy storage bidders with necessary information to tailor bids that will bring the most benefit to PSE's system. In Staff's review, it was unclear whether the substations studied represent all substations operated by PSE. Do the substations shown in Tables 3.1 and 3.2 of Exhibit I comprise all of PSE's substations? If not, what caused the substations left out of this study to be discarded from consideration?

Market reliance: Please describe the rationale underpinning PSE's linear rampdown of its reliance on market purchases; references to the 2021 IRP are welcome. In PSE's evaluation of market reliance risk, did the Company identify whether there are any years with a particularly large number of proposed plant shutdowns within the Northwest Power Pool or the Western Interconnect? Was the 1000 MW reduction – from 1500 MW of presumed market availability to 500 MW – a quantitatively rigorous determination or one based on managerial discretion?

PSM model: As discussed above, Staff has concerns regarding the use of tools other than those used in developing PSE's IRP for bid evaluation. Please provide more information regarding this decision. Has PSE determined whether PSM will yield results that are comparable to those produced by its IRP analytical toolkit? How would bid evaluation workloads increase and timelines change if PSE decided to use Aurora and Plexos as the primary modeling tools for bid evaluation? How does PSM countenance intrahour costs and benefits?

Capacity needs identified in 2027, CETA-compliant energy needs identified in (2026): Why did PSE decide to describe its capacity needs by focusing on the needs identified in 2027, while describing its CETA-compliant energy needs in terms of the Company's need estimate for 2026? The 2026 focus aligns with the requirement that bids meeting CETA-compliant energy needs be online by December 31, 2025, in time to be included within the 2022-2025 CEIP's specific targets and specific actions. Meanwhile, Figure 2 in the Revised Draft RFP shows a mostly-flat representation of PSE's available resources and system need after conservation from 2027 through 2030.²³ Did the Company decide that the years were better suited for describing the specific system need, and that alignment was deemed more useful than keeping the focus year the same between all system needs descriptions?

²² Revised Draft RFP at 13.

²³ Revised Draft RFP, at 9.

Conclusion

Staff reviewed this Draft RFP and believes it is reasonably consistent with PSE's 2021 IRP and recent filings. Before making a recommendation regarding the Commission's approval, Staff needs more information in certain areas and continues to have ongoing discussions with the Company.

Staff will withhold a final recommendation until after other stakeholders respond to the Commission's Notice. Staff intends to present its final recommendations at the Commission's July 30, 2021, Recessed Open Meeting.