BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of	)	DOCKET UE-210795
	)	
PUGET SOUND ENERGY	)	
	)	
Clean Energy Implementation Plan	)	
Pursuant to WAC 480-100-640	)	
____________________________________	)	

POST-HEARING BRIEF OF THE

ALLIANCE OF WESTERN ENERGY CONSUMERS

February 22, 2023

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DAVISON VAN CLEVE, P.C.
1750 S Harbor Way, Suite 450
Portland, OR 97201
Telephone: (503) 241-7242

I. INTRODUCTION

1 Pursuant to the Washington Utilities and Transportation Commission's ("Commission") Order 04 in the above-referenced docket, the Alliance of Western Energy Consumers ("AWEC") hereby files this Post-Hearing Brief.

2 Puget Sound Energy ("PSE" or "Company") filed its Final Clean Energy Implementation Plan ("CEIP") on December 17, 2021, with corrections and a replacement filing made on February 1, 2022. The purpose of a CEIP is to "describe[] the utility's plan for making progress toward meeting the clean energy transformation standards" as informed by the utility's Clean Energy Action Plan ("CEAP").[1] Among other requirements, a CEIP must include interim targets for making "reasonable progress" towards 100 percent of retail sales being greenhouse gas neutral by January 1, 2030, and 100 percent of retail sales being served by non-emitting and renewable resources by January 1, 2045.[2] The CEIP must also identify specific targets for energy efficiency, demand response and renewable energy.[3] "Reasonable progress" is demonstrated in part through specific actions described within the CEIP.[4] A utility is considered to be "in compliance" with CETA standards if, over the four-year compliance period, the average annual incremental cost of meeting the standards equals a two percent increase of the investor-owned utility's weather-adjusted sales revenue to customers for electric operations above the previous year (referred to herein as the "incremental cost cap").[5]

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1 WAC 480-100-640(1).
2 WAC 480-100-640(2).
3 WAC 480-100-640(3).
4 WAC 480-100-640(5).
5 RCW 19.405.060(3)(a).

DAVISON VAN CLEVE, P.C.
1750 S Harbor Way, Suite 450
Portland, OR 97201
Telephone: (503) 241-7242

3 In its CEIP, PSE's proposed interim target is "to source 63 percent of [its] electric supply from renewable or non-emitting resources in 2025, up from 34 percent in 2020,"[6] with a specific renewable energy target of adding 800 megawatts ("MW") of new utility-scale renewables and 80 MW of new distributed solar resources.[7] PSE plans to meet these interim and specific targets through its All-Source Request for Proposal ("RFP").[8] PSE developed its CEIP preferred portfolio based on its 2021 Integrated Resource Plan ("IRP") preferred portfolio, but with significant changes. First, PSE substituted solar for wind, and second, PSE set a two percent spending target based on the two percent incremental cost cap. These changes result in an additional cost of approximately $500 million on a 24-year levelized cost basis.[9]

4 The Commission should conclude that PSE's CEIP runs contrary to the policy intent underlying CETA's directive that utilities achieve targets, including the renewable energy target, at the lowest reasonable cost, considering risk, as well as the policy intent behind the two percent incremental cost cap. The Commission should also decline to provide PSE's requested guidance on how to address situations where actual costs vary from projected costs. Such guidance would only serve to insulate PSE from imprudence at the expense of customers. If the Commission is inclined to adopt PSE's CEIP, it should be subject to the condition that PSE's renewable energy target be set at 57 percent, consistent with its 2021 IRP analysis.[10] There is no dispute that achieving this 57 percent target by 2025 will still allow PSE to achieve CETA's

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6 PSE's CEIP at 2.
7 *Id.* at 4.
8 *Id.*
9 Exh. LDK-1T at 3:17 to 4:8; PSE CEIP at 4 ("To meet targets consistent with the goals of CETA, PSE estimates we will need to spend, on average, a two-percent average annual rate increase specifically to implement the above-stated targets consistent with CETA.").
10 Exh. LDK-1T at 9:1-5.

DAVISON VAN CLEVE, P.C.
1750 S Harbor Way, Suite 450
Portland, OR 97201
Telephone: (503) 241-7242

2030 carbon neutral requirements.[11] While the recently passed Inflation Reduction Act ("IRA") could result in justifiable changes to PSE's CEIP targets and resource procurements, evidence supporting those potential changes is not available to the Commission in this proceeding and should not influence the Commission to make a decision outside of the evidence in this case.[12] Rather, PSE should provide this information in its CEIP update. Finally, the Commission should decline to adopt Northwest Energy Coalition's ("NWEC") and Front and Centered's proposed Social Cost of Greenhouse Gasses ("SCGHG") modeling change, as it does not materially impact emissions but results in substantial additional costs to customers.

II. ARGUMENT

A. The renewable energy target in PSE's CEIP is inconsistent with CETA policy.

5 PSE's CEIP preferred portfolio runs afoul of CETA policy by converting the incremental cost cap into a spending target for forecast costs. This approach is inconsistent with CETA's intent to have utilities achieve compliance at the lowest reasonable cost, considering risk, as well as CETA's two-percent incremental cost cap.

6 Revised Code of Washington 19.405.040(6)(a)(i) requires utilities to achieve targets at the lowest reasonable cost, considering risk, to the maximum extent feasible. Inherent in this directive is that utilities' interim and specific targets are determined consistent with the same standard. Thus, PSE's interim targets should reflect a least-cost approach to achieving CETA's legislative requirements. It is illogical to conclude that the lowest reasonable cost,

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[11] *Id.* at 7:4-8.
[12] Exh. LDK-3 at 9.

DAVISON VAN CLEVE, P.C.
1750 S Harbor Way, Suite 450
Portland, OR 97201
Telephone: (503) 241-7242

considering risk standard would apply only at the point that PSE is taking actions pursuant to approved targets, but not when determining the targets themselves. The portfolio selection process should – and did in PSE's 2021 IRP preferred portfolio – reflect this obligation. PSE's CEIP preferred portfolio, however, violates this by setting aside the reasonable progress that can be achieved at the lowest reasonable cost, considering risk, and instead drives toward the maximum amount of resource procurement possible within the incremental cost cap.

7 The Washington Legislature also sought to shield customers from burdensome costs by subjecting CETA compliance costs to an incremental cost cap. The incremental cost cap functions by considering utilities to be in compliance if CETA's incremental costs reach two percent of the utility's weather-adjusted sales revenue over a four-year planning period.[13] In consideration of this provision, WAC 480-100-660(4) requires utilities to file projected incremental cost estimates in each CEIP using the Commission's prescribed methodology. The Commission has previously clarified that "…the specific actions, specific targets, and interim targets should not require the utility to spend an amount that approaches its incremental cost estimate; to the contrary…CETA requires utilities to meet the statutory requirements at the lowest reasonable cost."[14]

8 Contrary to Staff's position, the incremental cost cap must be considered and serve as a constraint in the CEIP development process because a retroactive review of costs does

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[13] RCW 19.405.060(3)(a).

[14] *In the Matter of Adopting Rules Relating to Clean Energy Implementation Plans and Compliance with the Clean Energy Transformation Act*, Dockets UE-191023 & UE-190698 (consolidated), General Order 601 at 42-43, ¶ 120 (Dec. 28, 2020).

DAVISON VAN CLEVE, P.C.
1750 S Harbor Way, Suite 450
Portland, OR 97201
Telephone: (503) 241-7242

not effectively protect customers.[15] If incurred in compliance with an approved CEIP, it would be unfair to the utility to disallow costs that exceed the two percent incremental cost cap based on actual results. To its credit, PSE considered the projected incremental cost estimates as a constraint in developing its CEIP;[16] however, PSE inappropriately took the additional step of developing a portfolio whose costs are equivalent to the estimated incremental cost cap.[17] The effect is a two percent rate adder for customers without a demonstrated need to do so in order to achieve CETA's carbon-neutral standard by 2030. PSE's justification for the change is a desire to meet some stakeholders' expectations to "move 'further, faster'"[18] – not a concern that it will not otherwise achieve CETA compliance based on lowest reasonable cost, considering risk, to the maximum extent feasible principle embedded in its IRP.

9 Both the lowest reasonable cost, considering risk requirement as well as the intent of the incremental cost cap must be preserved and should not be abandoned because of some stakeholders' desires to move as quickly as possible towards CETA compliance. The Legislature – not external stakeholders – provided the timeline for achieving greenhouse gas neutrality, setting it at 2030, not before. It did so to balance the need to decarbonize the electric system while insulating customers, who ultimately bear the costs of PSE's CETA compliance strategy, from unreasonably high costs. The Commission should not substitute its judgment for that of the Legislature's in this proceeding.

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15 Exh. JBN-1T at 22:17-19 (Commission Staff stating its understanding that "the incremental cost of compliance should not be used as a planning constraint during PSE's CEIP development process.").

16 Exh. KKD-1T at 13:4-11.

17 *See e.g.* Exh. KKD-1T at 13:6-7 (PSE witness Durbin testifying that "PSE used the two percent incremental cost calculation to inform a reasonable spending threshold for resource acquisition in the first four-year period.").

18 Exh. KKD-1T at 12:15.

DAVISON VAN CLEVE, P.C.
1750 S Harbor Way, Suite 450
Portland, OR 97201
Telephone: (503) 241-7242

B. The Commission should decline to provide additional guidance to PSE on resource acquisition relative to the incremental cost cap.

10 PSE requests "guidance" from the Commission on how to consider the incremental cost cap in two circumstances – first, if PSE's costs are below the two percent incremental cost cap, and second, if PSE's costs will exceed the two percent incremental cost cap without it meeting approved targets. These requests appear to ask the Commission for a form of pre-approval as PSE goes to implement CEIP plan requirements.

11 The CEIP is, fundamentally, a planning document from which PSE's actions can and should deviate based on what it knows or should have known at the time that resource decisions are made.[19] For example, the results from its All-Source RFP process can, and should, inform PSE's resource acquisition to meet or deviate from approved targets. Also, as noted above, the impact of the IRA on PSE's resource acquisitions is not available in this proceeding, but PSE should, and AWEC expects PSE will, perform this analysis when it procures new resources. PSE ultimately bears the burden of demonstrating, in a rate recovery proceeding, that any acquisitions are both prudent and lowest reasonable cost, considering risk.[20] AWEC recommends the Commission decline to provide the "guidance" PSE seeks in this proceeding and, thus, make clear that PSE risks a finding of imprudence in the event that it further accelerates renewable energy acquisitions for the purpose of hitting a two percent spending

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[19] *See e.g. Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-220066, UG-220067 & UG-210918 (consolidated), Final Order 24/10 at ¶ 204 (Dec. 22, 2022).

[20] *See e.g.* Exh. CDAT-1T at 12:12-13.

DAVISON VAN CLEVE, P.C.
1750 S Harbor Way, Suite 450
Portland, OR 97201
Telephone: (503) 241-7242

target, or that it exceeds the two percent annual cost cap in the event that costs of compliance are greater than anticipated.[21]

C. If the Commission approves PSE's CEIP, it should condition approval on PSE utilizing the linear glide path with the renewable energy targets identified in its 2021 IRP.

12 PSE's CEIP proposes to meet 63 percent of retail sales in 2025 from renewable energy, which it plans to achieve by adding 800 MW of new utility-scale renewables and 80 MW of new distributed solar resources during the compliance period. As previously described, PSE's CEIP varies from its 2021 IRP preferred portfolio, which also considered CETA compliance, in two pivotal ways – first, PSE substituted solar generation for wind generation, and second, PSE accelerated the timing of its renewable resource acquisitions until the incremental cost cap became binding.[22] The impact of these changes is a move from a 56 percent interim target to a 63 percent interim target at an addition $500 million 24-year levelized cost to ratepayers compared to the anticipated cost of PSE's 2021 IRP.[23]

13 PSE confirms that its approach "may be more costly in the near term" compared with its 2021 IRP,[24] but does not provide testimony directly refuting AWEC's scale of impact – nor could it, as the incremental cost of PSE's CEIP comes from PSE's own analysis. Instead, PSE attempts to divert attention by claiming that "in the long term, the CEIP portfolio has a lower 24-year levelized cost ($18.79 million) as compared to the IRP preferred portfolio ($21 million).[25] These numbers are incomparable because they were generated using fundamentally

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21 Exh. LDK-1T at 11:6-13.
22 *Id.* at 4:9 to 5:12.
23 *Id.* at Table 1; Exh. KKD-6T at 7:14-21.
24 Exh. KKD-6T at 7:20.
25 *Id.* at 8:1-3.

DAVISON VAN CLEVE, P.C.
1750 S Harbor Way, Suite 450
Portland, OR 97201
Telephone: (503) 241-7242

different modeling processes.[26] An apples-to-apples comparison of the 24-year levelized costs requires comparing portfolios that were modeled using the same gas and energy price inputs.

14 The 24-year levelized cost, excluding SCGHG, of the 2021 IRP preferred portfolio is $16.1 billion.[27] However, when the inputs for this portfolio are updated to be consistent with the inputs used in the CEIP, the cost of this portfolio reduces to $13.2 billion.[28] The appropriate 24-year comparison is to compare the cost of the 2021 IRP portfolio with updated inputs of $13.2 billion to the final CEIP portfolio cost of $13.7 billion – again, a $500 million difference.[29]

15 In terms of actual emissions, PSE states that the emissions rate between the 2021 IRP portfolio and the CEIP preferred portfolio represents a "small difference" that is "negligible and within the margin of error of the provided modeling assumptions."[30] SCGHG modeling differences should not be used to distract from the fact that PSE does not anticipate a statistically significant difference in the actual emissions between the 2021 IRP and the CEIP. As such, AWEC's $500 million cost differential should be viewed as the compelling comparator between the two preferred portfolios.

16 Near-term costs are important to customers. PSE's customers are already facing higher rates related to PSE's Multi-Year Rate Plan ("MYRP") and (likely) PSE's Climate

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[26] Exh. LDK-1T at fn. 3.
[27] Exh. LDK-3 at 6. *See* 2021 IRP Preferred Portfolio results.
[28] Exh. LDK-3 at 6. *See* Model 1 results.
[29] Even after consideration of the SCGHG the IRP portfolio remains lower cost. Exh. KKD-7 at page 2 shows that the 24-year levelized SCGHG for the 2021 IRP portfolio is $5.13 billion and that of the CEIP portfolio is $4.9 billion. This illustrates that the SCGHG in the 2021 IRP portfolio is only $230 million greater than the CEIP portfolio. Thus, even after accounting for the SCGHG, the 2021 IRP portfolio remains approximately $270 million less costly than the CEIP portfolio.
[30] Exh. KKD-7 at 2.

DAVISON VAN CLEVE, P.C.
1750 S Harbor Way, Suite 450
Portland, OR 97201
Telephone: (503) 241-7242

Commitment Act ("CCA") compliance costs, among other cost pressures. For electric service, PSE was granted a $223 million rate increase in year one of its MYRP and another $38 million rate increase in year two.[31] This increase does not include CCA compliance costs, which PSE estimates to be approximately $135.8 million that will not be covered by no-cost allowances.[32] Moreover, the potential "benefits" that PSE identifies – mitigation of future renewable energy supply chain risks, mitigation of inflationary pressures, and taking advantage of federal renewable energy tax incentives – are uncertain and difficult to quantify. On the flip side, there are risks that technological advances will occur, supply chains and inflation will improve, and other unknown developments may arise, making resource acquisitions in future CEIP compliance periods more cost-effective. Accelerating renewable energy resources beyond what is required for reliability and making reasonable progress towards CETA requirements, as identified in PSE's 2021 IRP, reduces flexibility and comes with the risk that customers will be locked into a more expensive compliance strategy than is otherwise necessary, contrary to RCW 19.405.040(6)(a)'s requirement that utilities achieve targets at the lowest reasonable cost, considering risk.

D. The Commission should not adopt NWEC's proposed methodology for modeling SCGHG as a condition of approval.

17 NWEC and Front and Centered request that PSE model the SCGHG as a dispatch adder, meaning to use it as a direct cost that affects economic dispatch of PSE's fossil fuel plants. NWEC and Front and Centered argue that PSE's approach "did not fully account for the

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31 *WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067, and UG-210918 (consolidated), Order 26/12 at ¶ 2.

32 *Id.* at ¶ 5.

DAVISON VAN CLEVE, P.C.
1750 S Harbor Way, Suite 450
Portland, OR 97201
Telephone: (503) 241-7242

value of adding clean energy resources to PSE's portfolio,"[33] and that PSE should directly apply the SCGHG to fossil fuel dispatch within the portfolio optimization model "in order to account for the full value of avoiding GHG emissions with clean energy resources."[34]

18 PSE responds that inclusion of SCGHG as a dispatch adder is inconsistent with actual utility operations, because PSE does not consider SCGHG when making economic dispatch decisions.[35] The effect of NWEC's and Front and Centered's proposed modeling change is negligible related to emissions, but it has a substantial impact on the resources selected – pulling an additional 800 MW of wind into 2025 which would otherwise be outside of this CEIP planning period. The cost of this change is almost double, going from about $50 million to about $90 million over the four-year CEIP period (2022-2025).[36]

19 NWEC's and Front and Centered's stated purpose for the modeling change is to account for the full value of avoiding GHG emissions. However, its actual effect is to double-count the cost of GHG emissions. Through the CCA, which requires covered entities to purchase allowances associated with their GHG emissions, the Legislature has included the cost of GHG emissions as a dispatch adder for generation facilities – and determined that the cost of these emissions is equivalent to the market-based price of allowances. That is why PSE's initial compliance filing to update its power costs at the end of its MYRP proceeding to account for the CCA increased these costs by over $135 million. If PSE is required to include an externality in

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33 Exh. EKH-1T at 3:2-5.
34 *Id.* at 3:17-4:2. NWEC and Front and Centered also advocate for the Commission to require this same treatment in future CEIPs and IRPs.
35 Exh. PJP-1Tr at 5:17-19.
36 *Id.* at 11:4-10.

DAVISON VAN CLEVE, P.C.
1750 S Harbor Way, Suite 450
Portland, OR 97201
Telephone: (503) 241-7242

the form of the SCGHG as a dispatch adder when modeling resource selection in the CEIP, it will count the cost of these emissions twice – once through the SCGHG and once through the CCA.

20 Furthermore, PSE's analysis demonstrates that the difference in emissions between the NWEC/Front and Centered modeling approach and PSE's is approximately 2.55 percent, which is "not a material difference."[37] The impact to costs, however, is material. The Commission should affirm PSE's modeling approach for the current CEIP. Long-term or permanent changes to modeling SCGHG in the CEIP are best addressed in a rulemaking or general proceeding, as opposed to individually litigated in CEIP proceedings, and in any event should account for the costs of the CCA to ensure customers are not paying for the same costs twice.

III. CONCLUSION

21 For the reasons stated above, the Commission should:

- Direct PSE to utilize a linear glide path with the resources identified in its 2021 IRP to meet renewable energy targets because it is more cost-effective than the resource acquisition plan in PSE's CEIP and still puts PSE on a path to achieve its 2030 CETA requirements.
- Direct PSE to refrain from further accelerating renewable energy targets in the event that its costs are less than planned once costs are known.

[37] Exh. PJP-1Tr at 9:9-12.

DAVISON VAN CLEVE, P.C.
1750 S Harbor Way, Suite 450
Portland, OR 97201
Telephone: (503) 241-7242

- Direct PSE to refrain from continuing to pursue resources up to the approved renewable energy targets to the extent that doing so would require PSE to exceed the two percent annual cost cap, or risk a finding of imprudence when PSE seeks cost recovery.
- Decline NWEC's and Front and Centered's requested modeling change related to SCGHG.

Dated this 22nd day of February, 2023.

Respectfully submitted,

DAVISON VAN CLEVE, P.C.

<u>/s/ Sommer J. Moser</u>
Sommer J. Moser, OR State Bar # 105260
1750 S Harbor Way, Suite 450
Portland, OR 97201
(503) 241-7242 (phone)
(503) 241-8160 (facsimile)
sjm@dvclaw.com
Of Attorneys for the
Alliance of Western Energy Consumers