EXHIBIT NO. ______ (GRP-7T)
DOCKET NO. UE-011570 and UG-011571
WITNESS: GEORGE R. POHNDORF, JR.

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DIRECT TESTIMONY OF GEORGE R. POHNDORF, JR. ON BEHALF OF PUGET SOUND ENERGY, INC. REGARDING SERVICE QUALITY INDICES SETTLEMENT

JUNE 7, 2002

PUGET SOUND ENERGY, INC.

DIRECT TESTIMONY OF GEORGE R. POHNDORF, JR.

SERVICE QUALITY INDICES (SQI) SETTLEMENT

Q: Please state your name, business address and present position with Puget Sound Energy, Inc.

A: My name is George Pohndorf. My business address is One Bellevue Center, Suite 300, 411 – 108th Ave. N.E., Bellevue, Washington 98004. I am the Director, Rates and Regulation for Puget Sound Energy, Inc. ("PSE" or "the Company").

Q: What do your responsibilities as Director, Rates and Regulation include?

A: I am responsible for overall management of the Company's rates and regulation department, including the regulatory planning, regulatory compliance, revenue requirements, and cost of service functions. My job duties currently include providing support to Ms. Harris in her oversight of PSE's pending General Rate Case. I have participated on behalf of the Company in many of the collaboratives. I will testify about the settlement with respect to Rate Design, Rate Spread, Time of Use, Line Extension, Conservation, Low Income, Service Quality Indices, and Backup Distribution Service issues.

Q: What is the purpose of your testimony in this Section?

A: The following testimony will briefly describe the important policy interests served by continuing the settlement stipulation service quality program.

Q: Please describe the current service quality program?

A: The current service quality program was implemented in 1997 under Docket No. UE-960195 (the merger docket), to establish a program for maintaining a high level of service quality during the merger rate stability period (also implemented under the merger docket). The current program consists of a Customer Service Guarantee feature and a Service Quality Index (SQI) component. Absent Commission action, the SQI program would expire this year on September 30, 2002.

Q: Please identify what policy interests the Company considers to be important in addressing service quality issues?

A: In general, there are four policy interests the Company considers to be important in addressing service quality issues. First, service quality programs should be targeted at maintaining good service quality and not setting performance targets at unreasonably high or unreachable levels. Second, the benchmarks and performance incentives should be meaningful and achievable without unintended prohibitive costs. Third, the program should be broad based and inclusive regarding the performance elements selected as appropriate for such programmatic monitoring. Fourth, the service quality program should be flexible and responsive to changing and unanticipated market/industry situations and customer preferences.

Q: How does this settlement address the interest of maintaining a high level of service quality?

A: The 10 existing measures will be continued, and several have been recalibrated based on an evaluation of the Company's actual performance since the merger. Based on these actual results, SQI Nos. 3, 4, and 9 were reset to levels consistent with maintaining high quality service levels experienced during the first 5 years of the program. In addition, an element of service previously unreported by the program was added (SQI No. 11 Electric Service Response Time).

Q: How does the settlement address the interest in establishing meaningful benchmarks and performance incentives?

A: Meaningful and achievable benchmarks were established as a result of basing the benchmarks on the Company's reported performance over the last 5 years, adjusted as needed for anticipated constraints. Certain benchmarks were normalized, so as to be consistent in comparison to other related benchmarks (SQI Nos. 1, 6, and 8, which address different aspects of satisfaction, were all set at 90%, where previously the benchmarks were 90%, 91%, and 85% respectively). Finally, the incentive "penalty" for failure to achieve benchmarks was increased from $7.5 million to $10 million so as to be roughly 0.5% of revenue, which is consistent with the existing basis for incentives and is significant to the Company.

Q: How does the settlement address the interest of broad-based and inclusive performance elements?

A: The proposed service quality program is broad-based and inclusive in at least two ways. First, it is directed at both the individual customer (via the Customer Service Guarantee $50 missed appointment credit) and all customers as a whole (via the provisions that return any imposed penalties to all natural gas and electric customers). Second, it reflects the broad multifaceted nature of service quality by including 11 separate performance indices, ranging from how long it takes the Company to arrive at an emergency to the length of time a customer waits to talk to an agent to how satisfied that customer was with the conversation.

Q: How does the settlement address the interest of providing a flexible and responsive program?

A: The settlement provides for this in two ways. First, it ensures that the information needed to assess the need to change or strengthen the service quality program is compiled periodically and made available regularly. Second, the agreement provides for the periodic review for the purpose of re-visiting and/or revising the performance metrics and methods in order to maintain an effective program, given market and industry conditions. In combination, these two provisions are aimed at the ongoing development, evaluation, monitoring, and adjustment needed to maintain an effective service quality program.

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