EXHIBIT NO. ___(CES-17)
DOCKET NO. UE-060266/UG-060267
2006 PSE GENERAL RATE CASE
WITNESS: CALVIN E. SHIRLEY

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-060266** **Docket No. UG-060267**

EIGHTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
CALVIN E. SHIRLEY
ON BEHALF OF PUGET SOUND ENERGY, INC.

AUGUST 23, 2006

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION
Docket Nos. UE-060266/UG-060267
WUTC v. PSE

RESPONSE OF PUBLIC COUNSEL TO PSE
DATA REQUESTS 1 through 18

Request No:	3
Directed to:	Simon ffitch
Date Received:	July 28, 2006
Date Produced:	August 8, 2006
Prepared by:	Elizabeth Klumpp
Witnesses:	Elizabeth Klumpp

DATA REQUEST NO. 3.

(Ref: E. C. Klumpp Testimony, p. 11)

Please provide an explanation, calculations and all documentation supporting a maximum shared net incentive of 16% with regard to Ms. Klumpp's recommended incentive calculation.

RESPONSE:

The maximum shared incentive of 16% cannot be separated from the $/MWH incentive. Public Counsel supports an incentive mechanism that has two features that independently may not be adequate or effective. Public Counsel did not choose 16% as a maximum shared incentive in isolation. Rather, Public Counsel focused on the total incentive amount – column H in Exhibit No. ___ (ECK-3).

Public Counsel focused on developing an incentive mechanism that would reduce the company's disincentives to invest in energy efficiency as a least cost resource. We considered a few indicators as boundaries for developing an incentive mechanism, including the following:

1) There are currently no financial incentives available to regulated companies in Washington State. The least cost planning rule, WAC 480-100-238, states that each regulated electric utility has the responsibility to meet its load with a least cost mix of generating resources and improvements in the efficient use of electricity. Some states assign the ratepayer funds to an independent third party for conservation implementation.

2) Lost margins have been paid in some states to utilities implementing energy efficiency programs.

3) The current authorized rate of return on capital resource investments is 10.4%. If the company were investing the annual energy efficiency budget of $29.5 million in the

construction and ownership of a new generation plant or distribution system, it might earn 10.4% on that investment for a financial gain of $3.1 million.

After considering a variety of indicators, Public Counsel selected incentive levels that reduce the disincentives to invest in the conservation resource, while preserving the majority of the economic benefit of conservation resources for the ratepayers. Public Counsel's proposal endeavors to balance the cost to ratepayers with an incentive to the company.