

**EXHIBIT NO. ___(CES-9T)
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**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
CALVIN E. SHIRLEY
ON BEHALF OF PUGET SOUND ENERGY, INC.**

AUGUST 23, 2006

PUGET SOUND ENERGY, INC.

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
CALVIN E. SHIRLEY**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3 **CALVIN E. SHIRLEY**

4 **I. INTRODUCTION**

5 **Q. Are you the same Calvin E. Shirley who submitted prefiled direct testimony**
6 **in this proceeding on February 15, 2006, on behalf of Puget Sound Energy,**
7 **Inc. ("PSE" or "the Company")?**

8 A. Yes.

9 **Q. What is the purpose of your rebuttal testimony?**

10 A. My rebuttal testimony responds to the assertions made by Federal Executive
11 Agencies' ("FEA") witness James T. Selecky, Northwest Energy Coalition
12 ("NWECC") Witness Nancy L. Glaser, Commission Staff witness Joelle R.
13 Steward, and Public Counsel witnesses Elizabeth C. Klumpp and Steven D. Weiss
14 regarding PSE's proposed electric energy efficiency incentive mechanism and
15 electric demand response programs.

16 **Q. Please summarize the Company's response to the other parties' positions on**
17 **these issues.**

18 A. After consideration of the other parties' critiques of PSE's proposed electric
19 energy efficiency incentive mechanism, the Company proposes certain

1 modifications to the mechanism described in my prefiled direct testimony and
2 requests that the Commission approve the mechanism as modified. The modified
3 incentive mechanism sets a reasonable baseline target, appropriately shares
4 benefits between customers and shareholders, and is a more balanced and
5 symmetrical structure than the various proposals of other parties.

6 The Company is disappointed with the other parties' reactions to its proposed
7 demand response pilot programs, but will agree to withdraw from this proceeding
8 PSE's request for \$3 million in funding for new demand response pilot programs.
9 The Company will pursue establishment of these programs through the
10 Conservation Resources Advisory Group ("CRAG") and seek recovery of costs
11 through the electric energy efficiency tariff rider, Schedule 120.

12 The Company requests that the Commission reject NWECC's assertions that PSE's
13 gas energy efficiency targets are inadequate. These targets were reviewed with
14 the CRAG in 2005 and there are significant challenges to increasing the targets.
15 PSE has continued to look for additional gas energy efficiency opportunities on
16 its own and through a targeted gas energy efficiency RFP since that time, but no
17 significant new opportunities have been uncovered.

18 Finally, the NWECC proposal to increase Low Income Weatherization funding by
19 \$1 million is not supported by any specific cost information, nor have they
20 provided any plans that indicate how the agencies plan to cost-effectively spend
21 the additional funds. PSE proposes instead to work with the Washington State

1 Department of Community Trade & Economic Development ("CTED") and low
2 income agencies outside of this proceeding to determine appropriate funding
3 levels.

4 II. ELECTRIC ENERGY EFFICIENCY MECHANISM

5 **Q. What are the other parties' positions with respect to an electric energy**
6 **efficiency incentive mechanism?**

7 A. Commission Staff, Public Counsel, and NWECA acknowledge that there are
8 regulatory disincentives to aggressive utility pursuit of energy efficiency. These
9 include: 1) that energy efficiency does not earn a return on investment, as do
10 supply-side resources, and 2) that energy efficiency may result in lost revenues
11 due to lower sales. These parties support the concept that an incentive
12 mechanism would encourage PSE to aggressively strive for cost-effective energy
13 savings. However, all three parties consider the Company's proposed incentive
14 mechanism to be flawed.

15 Each of these parties proposes an alternative incentive mechanism. All three
16 alternative mechanisms have similar structures, but differ in specific details. With
17 respect to structure, each alternative proposal sets a base target with a "deadband"
18 where no incentive or penalty applies. Each party proposes a two-part incentive
19 for energy savings beyond the deadband. The first part of the incentive is a dollar
20 per MWh saved amount. The second incentive component is a share of the net
21 value of the savings to ratepayers. The penalty is a dollar per MWh figure

1 imposed for savings that fall below the deadband. Within this common structural
2 framework, each party proposes different base targets, deadbands, and incentive
3 and penalty levels. In addition, these parties agreed on a set of requirements that
4 the Company would have to meet in order to be eligible for any incentive.

5 Contrary to Commission Staff, Public Counsel and NWECC, the FEA witness,
6 Mr. James T. Selecky, asserts that the Commission should not adopt any incentive
7 mechanism on the grounds that "a utility has an obligation to provide the least
8 cost service" and should therefore not be provided incentives that "artificially
9 increase the program costs that PSE is passing on to ratepayers."¹ Mr. Selecky
10 further argues that in seeking incentives, the Company has focused only on lost
11 revenues and ignores the cost savings resulting from energy efficiency programs.
12 He also argues that incentives result in energy efficiency being held to a lower
13 standard of prudence than supply resources.

14 **Q. What is your response to the FEA position that an incentive mechanism**
15 **should not be approved?**

16 A. As stated in my original prefiled direct testimony, an incentive mechanism
17 corrects potential misalignment between the public interest and utility financial
18 interests.² It has long been recognized by this Commission, other parties in this
19 proceeding, and the industry in general, that the lack of opportunity to earn on its
20 expenditures and the loss of authorized margins due to decreased sales volumes

¹ Exhibit No. ___(JTS-1T) at pages 13.

1 discourage utilities from "doing the right thing" to aggressively pursue cost
2 effective energy efficiency savings.

3 As noted in my prefiled direct testimony, the Commission recognized these
4 disincentives as early as 1990.³ More recently, on July 31, 2006, the National
5 Association of Regulatory Utility Commissioners endorsed a National Action
6 Plan for Energy Efficiency, including best regulatory practices. Included in this
7 report is a recommendation to "Modify policies to align utility incentives with the
8 delivery of cost effective energy efficiency and modify ratemaking practices to
9 promote energy efficiency investments".⁴

10 With respect to Mr. Selecky's criticism of the details of PSE's proposed
11 mechanism, his statement that PSE only looks at lost revenues and ignores the
12 power cost savings resulting from energy efficiency reflects an apparent
13 misunderstanding of my testimony. As Mr. Selecky acknowledges in his
14 testimony, the Company is not seeking recovery of lost revenues or margins.⁵
15 Power cost savings are the primary benefit of implementing energy efficiency
16 programs because these programs can help reduce generation resource additions
17 that would otherwise be needed to meet growing loads. There is a fundamental
18 requirement in PSE's proposed mechanism that all programs must be cost

² Exhibit No. ___(CES-1T) at page 15.

³ Exhibit No. ___(CES-1T) at pages 5-6.

⁴ See page 2-1 of the Plan.

⁵ Exhibit No. ___(JTS-1T) at page 12, lines 19-20.

1 effective in order to be eligible for an incentive.⁶ As shown in my Exhibit
2 No. ___(CES-10), the Company's annual 20 aMW stretch goal for 2007 would, on
3 a net present value basis, generate a net benefit to ratepayers of \$22.1 million.

4 This is far greater than any incentive that would have been paid under the
5 Company's original proposal,⁷ or that would be paid under the Company's
6 modified proposal, described below and in Exhibit No. ___(CES-11).

7 There are other benefits of energy efficiency to customers beyond reduced energy
8 bills and lower rates from reduced power costs. These include reduced air
9 emissions from fossil-fired generation.

10 **Q. What is your response to the Commission Staff, Public Counsel, and NWECC**
11 **positions that the Company's originally proposed mechanism is flawed?**

12 A. First, I would like to reiterate that the Company's proposal is in the interest of
13 customers as explained above in my response to Mr. Selecky's position. Second,
14 it is my belief that the Company's original proposed mechanism is consistent with
15 the Commission's four general principles for new regulation in Docket No. UE-
16 900385: (1) it must be measurable; (2) it must be reasonably simple to
17 administer; (3) it must be intuitive enough to allow a straightforward explanation
18 to customers; and (4) it must be an improvement, on balance, over the current
19 method of regulation.

⁶ Exhibit No. ___(CES-1T) at pages 9-10.

⁷ See PSE Response to NWECC Data Request No. 026, copy provided as Exhibit No. ___(CES-16).

1 One of the primary concerns of each of these parties is that by using total
2 expenditure level as the basis for calculating incentives, the Company would be
3 under no constraint to control costs and could be rewarded for spending money
4 inefficiently. However, spending more to acquire energy efficiency savings
5 should not automatically be construed as not being in the public interest. The
6 Company has been pursuing electric energy efficiency since 1979, and building
7 codes and appliance standards have evolved as well, so many of the most cost-
8 effective energy efficiency measures have already been implemented (e.g.,
9 weatherization of electrically heated homes and low flow showerheads). There is
10 less "low hanging fruit" to be picked. Many new opportunities, although still
11 cost-effective, may be more costly. The Company believes that there should be
12 some recognition that continued pursuit of cost-effective energy efficiency at or
13 above current levels of achievement will require effort and costs that are beyond
14 previous historical levels. The requirement that all programs be cost-effective
15 protects customers from the Company investing in programs for which the power
16 cost savings resulting from the programs do not outweigh the costs of the
17 programs.

18 **Q. Is the Company nevertheless proposing to modify its electric energy**
19 **efficiency incentive mechanism proposal?**

20 A. Yes. Although I believe the Company's original proposal is in the public interest
21 and is consistent with previous Commission guidelines for such proposals, I also
22 recognize that other mechanisms may achieve these objectives as well. The

1 Company has reviewed the mechanisms proposed by Commission Staff, Public
2 Counsel, and NWEAC, and now proposes a modified incentive mechanism that is
3 consistent with the general structure proposed by these parties. This modified
4 proposal addresses the other parties' concerns, while still providing value to both
5 customers and Company shareholders. The Company's modified mechanism is
6 presented in Exhibit No. ____ (CES-10) and a sample tariff Schedule 121 is
7 presented in Exhibit No. ____ (CES-15).

8 **Q. Please describe the Company's new proposed mechanism.**

9 A. The Company's modified proposal sets a base target with a "deadband" where no
10 incentive or penalty applies, as did the earlier proposal. The new mechanism
11 would set a two-part incentive for energy savings beyond the deadband. The first
12 part of the incentive is a dollar per MWh saved amount. The second incentive
13 component is a share of the net value of the savings to ratepayers. The penalty is
14 a dollar per MWh figure imposed for savings that fall below the deadband. This
15 is the same basic structure shared by the Commission Staff, Public Counsel, and
16 NWEAC proposals.

17 Exhibit No. ____ (CES-11) presents the new mechanism and compares it to the
18 Company's original proposal, as well as illustrating what the total incentives and
19 penalties would be at levels of energy savings equal to the start of each step in the
20 incentive and penalty ranges.

1 The Company would continue to use a 16.5 aMW base target, as originally
2 proposed, but has modified the deadband to be 95% - 105% of the base target.

3 This is the same as NWECC has proposed.

4 Different levels of incentive would be paid at several different bands, or ranges of
5 savings above the deadband. The incentive ranges proposed by the Company are
6 the same as those proposed by NWECC. The Company proposes that the dollar per
7 MWh component of the incentive be \$5 - \$20 and a shared net value incentive of
8 0% - 50%, depending on the incentive range. The Company's proposed incentive
9 amounts are more aligned with NWECC's proposal than those of the Commission
10 Staff or Public Counsel.

11 The penalty would be structured as a dollar per MWh on the shortfall between the
12 base target and the savings actually achieved, for levels of savings below the
13 deadband. The penalty levels range from \$75 - \$115 per MWh of shortfall. The
14 Company's modified penalty structure is more similar to those proposed by
15 Commission Staff and Public Counsel than NWECC.

16 Exhibit No. ___(CES-12) compares the Company's modified proposal to those of
17 Commission Staff, Public Counsel, and NWECC, including example calculations of
18 what the total incentives and penalties would be for each party's proposal at levels
19 of energy savings equal to the start of each step in their incentive and penalty
20 ranges.

1 **Q. Is the Company's modified proposed incentive mechanism in the public**
2 **interest?**

3 A. Yes. The Company's modified proposal would provide a reasonable incentive to
4 the Company to aggressively pursue energy efficiency, yet would ensure that
5 incentive payments are only a relatively small portion of the savings achieved by
6 these programs.

7 The total net benefit of energy efficiency to ratepayers can be estimated by
8 comparing the value of the power costs avoided through energy efficiency
9 programs to the total costs incurred by both the utility and participating customers
10 to achieve those energy savings (typically referred to as Total Resource Cost). A
11 reasonable incentive mechanism will share the total net savings between utility
12 shareholders and ratepayers in such a way that shareholders receive a significant
13 incentive to aggressively pursue energy efficiency, while still retaining most of
14 the total net benefits for ratepayers.

15 The Company believes its proposal represents a fair sharing of the total net
16 benefits from energy efficiency programs between shareholders and ratepayers.

17 Exhibit No. ___(CES-11) includes a calculation that shows the Company's
18 proposed incentives would equal 3% to 20% of the total net savings from electric
19 energy efficiency programs, depending on the level of energy savings achieved.

20 This means that ratepayers would retain 97% to 80% of the net savings after
21 incentives are paid. The mechanisms proposed by other parties, particularly

1 Commission Staff and Public Counsel, do not provide shareholders with sufficient
2 incentives to acquire as much of this socially beneficial resource as possible.

3 **Q. Why does the Company's modified mechanism include the same 2007 base**
4 **target of 16.5 aMW as the Company's original proposal?**

5 A. Both the Company and NWECC have proposed the same 2007 base target of
6 16.5 aMW. The base target is intended to represent a minimum level of energy
7 savings that the Company should be reasonably expected to achieve, based on the
8 best information available at the time.

9 The reasons the Company selected the 16.5 aMW base target were set forth in
10 PSE's Response to NWECC Data Request No. 16:

11 As explained on page 9 of Exhibit No. __ (CES-1T), the baseline
12 target of 16.5 aMW in 2007 is a one-year share of the 33 aMW
13 target established in collaboration with the Conservation
14 Resources Advisory Group (CRAG) as the threshold level to avoid
15 the current penalty mechanism. This target level falls between the
16 accelerated energy efficiency level of 18.6 aMW per year and the
17 steady-pace guidance of 11.5 aMW per year from Chapter X, page
18 50 of Puget Sound Energy, Inc.'s ("PSE" or "the Company") 2005
19 Least Cost Plan (adjusted for 6.5% T&D line losses). It is the
20 Company's opinion that this baseline target is reasonable because it
21 requires some acceleration of the acquisition of energy efficiency
22 resources and provides the opportunity for an incentive to strive to
23 meet or exceed the accelerated guidance in the Least Cost Plan.
24 Achieving or exceeding the 18.6 aMW accelerated guidance in the
25 Least Cost Plan will be challenging. For example, for the 2006 –
26 2007 residential lighting program, the Regional Technical Forum
27 reduced the deemed savings for compact fluorescent lighting by
28 54%, from 71 kWh per year per CFL bulb to 33 kWh.

1 Given the challenges of meeting the accelerated Least Cost Plan guidance,
2 achieving a 20 aMW stretch goal will be even more challenging.

3 **Q. Why has the Company rejected the base targets proposed by parties other**
4 **than NWECC?**

5 A. Public Counsel's approach of starting with the Company's 2007 stretch savings
6 goal of 20 aMW as the base target is inappropriate, even though incentives would
7 be paid for savings down to 90% of that level. This would negate the purpose of
8 setting a stretch goal and then planning programs and budgets in an attempt to
9 reach that goal. Public Counsel's proposal would focus on negotiating an annual
10 stretch goal with the CRAG to use for incentive calculations and neglect the true
11 purpose of the base target, which is to provide the Company a base savings level
12 to try to stretch from.

13 The Commission Staff proposal sets the 2007 base target at 18.3 aMW, which is
14 very close to the 18.6 aMW accelerated guidance in the 2005 Least Cost Plan. As
15 discussed above, this will be more challenging to achieve in 2007 than in previous
16 years. While this may not be Ms. Steward's intent, consciously setting energy
17 efficiency targets to closely match resource plan guidance assumes that resource
18 plans are precise estimates of the amounts and costs of specific resources to be
19 acquired, including energy efficiency. However, resource plans are intended only
20 to provide guidance, based on general high level planning assumptions. Real-

1 world implementation may be quite different and the target setting process should
2 have flexibility to recognize and adjust for these differences.

3 **Q. How was the Company's proposed deadband selected?**

4 A. As stated in Ms. Steward's testimony for Commission Staff, target setting is an
5 imperfect science (Exhibit No. ___(JRS-1T) at page 27). The deadband is
6 intended to act as a cushion against imperfect estimation of targets and provide
7 for some margin of error.

8 The Company and NWECA have both proposed a symmetrical deadband that
9 creates a neutral zone of plus 5% and minus 5% around the base target. This
10 design assumes that the base target could be more conservative or more optimistic
11 than anticipated and allows for some imprecision on either side of the base target.
12 Thus, at the proposed base target of 16.5 aMW, the Company would be eligible
13 for incentives starting at approximately 17.3 aMW and subject to penalties
14 starting at 15.7 aMW.

15 **Q. What is your reaction to the deadbands proposed by other parties?**

16 A. The deadbands proposed by Commission Staff and Public Counsel are set below
17 the base target to provide a cushion before penalties would apply. Given the
18 higher base targets proposed by Commission Staff and Public Counsel, their
19 deadbands appear to be intended to protect against these potentially over-
20 aggressive base targets. In fact, Public Counsel indicates that the aggressiveness

1 of its base target was the primary factor in determining its proposed deadband
2 (Exhibit No. ___(ECK-1T at page 13). It would seem to make more sense to set
3 targets at a more reasonable threshold with a symmetrical deadband that protects
4 against both over-estimation and under-estimation of targets.

5 **Q. How were the Company's proposed incentive amounts selected?**

6 A. The proposed incentive mechanism provides increased incentives for increased
7 performance. A maximum incentive of \$20/MWh for the dollar per MWh
8 component is appropriate, as proposed by Commission Staff and NWECC. The
9 Company proposes that all energy savings equal to or greater than 115% of the
10 base target be eligible for this incentive level. At this point, achieved energy
11 savings would be higher than the guidance provided by the PSE 2005 Least Cost
12 Plan of 18.6 aMW per year. Much more modest incentives of \$5/MWh and
13 \$10/MWh are earned at the 105% and 110% levels beyond the base target, like
14 NWECC's proposal.

15 The shared net savings component of the incentive progressively increases from
16 5% to 50% of the first-year net savings benefit (costs avoided due to energy
17 savings minus the total resource cost to acquire those savings). As shown in
18 Exhibit No. ___(CES-5), the net benefit from electric energy efficiency programs
19 is estimated to be \$0.18/kWh saved. The shared incentive paid by this component
20 applies only to first-year program savings, while ratepayers receive 100% of the
21 benefits from nine out of ten years of savings, based on the average life of savings

1 in the program portfolio. This provides the Company a sufficient incentive to
2 control costs, yet still retains most of the net savings benefit for ratepayers.

3 The Company's proposed incentive is calculated in a single step for each
4 component, with the incentive amounts applied to all the energy savings beyond
5 the base target, as in the proposals of Public Counsel and NWECC.

6 **Q. What is your response to the incentive amounts proposed by other parties?**

7 A. Public Counsel designed their incentive amounts by focusing on the total desired
8 incentive pay-out and then determining various levels for the dollar per MWh and
9 shared net savings components to achieve that total incentive amount.⁸ This
10 method appears to be an arbitrary way of backing into a desired result without any
11 basis for the values selected for each incentive component. Public Counsel could
12 have achieved the desired total incentive amount by any number of other
13 combinations of dollar per MWh and shared net savings values.

14 The Commission Staff proposes a multi-step calculation for each component,
15 based on the incremental increase in savings from one level in the incentive range
16 to the next. In response to a PSE data request, Commission Staff described the
17 steps needed to calculate an incentive for their proposal.⁹ Each component of the
18 incentive would have to be calculated separately for each savings tier, then all the

⁸ See Public Counsel Response to PSE Data Request No. 3, copy provided as Exhibit
No. ___(CES-17).

⁹ See Commission Staff Response to PSE Data Request No. 127, copy provided as Exhibit
No. ___(CES-18).

1 calculated amounts added together. For example, if the achieved amount of
2 energy savings fell into the second incentive tier, then two separate calculations
3 would be required, three separate calculations for the third tier, and so on. It is
4 the Company's belief that the Commission Staff method is unnecessarily
5 cumbersome to calculate and difficult to explain.

6 **Q. How did the Company select its proposed penalty amounts?**

7 A. As stated in Ms. Klumpp's testimony for Public Counsel, the penalty mechanism
8 acts as an "insurance plan" that protects ratepayers from sudden shifts in
9 Company strategy away from energy efficiency.¹⁰ However, it is also important
10 to note that under-performance may also be a result of lower than expected
11 customer participation in programs, unplanned cost increases, or unanticipated
12 changes in energy costs or economic conditions – not just shifts in Company
13 policy.

14 The Company proposes penalty levels of \$100/Mwh of shortfall for savings that
15 are 90% - 95% of base target, and \$110/Mwh for all savings below 90% of base
16 target. This penalty structure is much more severe than the current existing
17 penalty mechanism. The per MWh penalty levels would result in total penalty
18 amounts that are of similar magnitude to the potential incentives, thereby creating
19 an evenly balanced mechanism.

¹⁰ Exhibit No. ___(ECK-1T) at page 13.

1 The Company also does not agree with NWECE's contention that the appropriate
2 penalty is an amount equal to the Company's average budget per aMW of targeted
3 savings for the program year. This creates a severely unbalanced structure, with
4 penalties that are out of proportion with the incentives, as discussed below. The
5 NWECE penalty also does not offer any guarantee that the energy savings shortfall
6 could be made up, since falling short of the target may be due to changing market
7 conditions, not a sudden unilateral utility decision to turn its back on energy
8 efficiency.

9 **Q. What is your reaction to the penalty amounts proposed by other parties?**

10 A. The proposals of Public Counsel and NWECE result in potential penalty amounts
11 that are significantly in excess of the potential incentives, creating an unbalanced
12 regulatory mechanism, which I discuss later in my testimony. Both Public
13 Counsel and NWECE argue that these large penalties are based on the premise that
14 the Company should provide enough funding for third party vendors to make up
15 the shortfall of energy savings between the base target and actual level of savings
16 achieved.

17 This premise is faulty. The purpose of the incentives and penalties is to encourage
18 good performance and deter poor performance, not act as a specific cost
19 adjustment mechanism. The incentive component is designed to encourage the
20 Company to "do the right thing", not to offset any specific amount of lost margin
21 or lost opportunity to earn on an investment. Similarly, the penalty component is

1 intended to discourage the Company from under-achieving, not to acquire a
2 specific amount of energy in compensation. In addition, since falling short of the
3 target may be due to changing market conditions or economics and not just a
4 sudden unilateral utility policy decision, it may be impossible to cost-effectively
5 make up the lost savings through programs run by third parties.

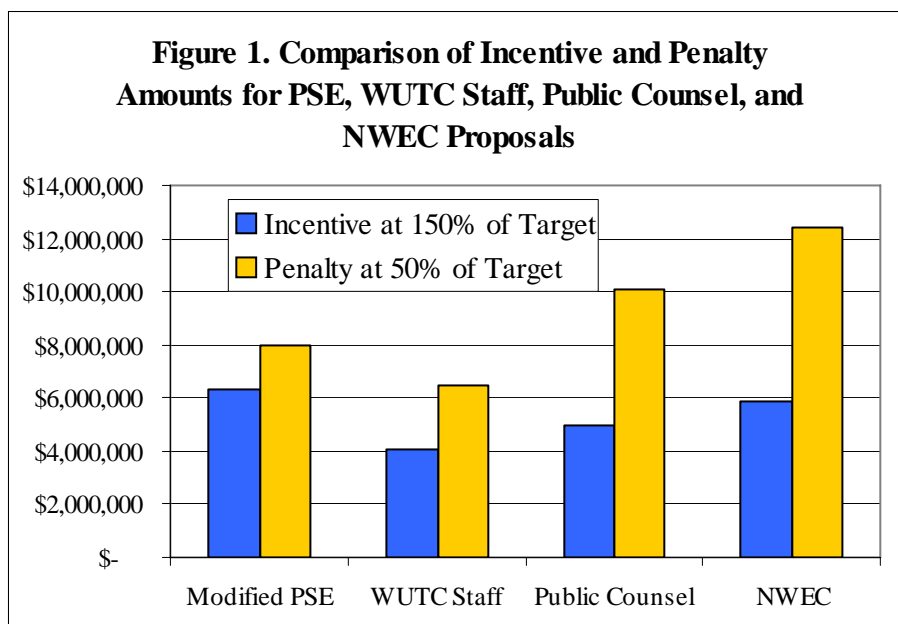
6 **Q. Should there be balance between incentives and penalties?**

7 A. Yes. Maintaining approximate balance between the amounts of total incentives
8 and penalties would indicate a balanced regulatory policy that does not over-
9 emphasize reward or punishment. As shown in Figure 1, below, the Company's
10 proposal would result in a penalty of about \$8.0 million for savings that are 50%
11 below their 16.5 aMW base target, and an incentive of \$6.3 million for savings
12 that are 50% above the base target – a ratio of penalty to incentive of 1.27.

13 **Q. Are the mechanisms proposed by other parties balanced?**

14 A. No, Commission Staff, Public Counsel, and NWEC all propose mechanisms
15 where the penalty is disproportionately greater than the incentive. Figure 1 shows
16 the range of incentive and penalty values for each party's proposal. The proposal
17 from Public Counsel results in a penalty of about \$10.1 million if savings fall
18 below 50% of their 20 aMW base target, while the incentive for exceeding the
19 base target by 50% would be about \$5.0 million – a ratio of penalty to incentive of
20 2.0. The penalty mechanism proposed by NWEC is similarly unbalanced. The
21 NWEC proposal yields a penalty of \$12.4 million for savings that are 50% below

1 their 16.5 aMW base target, and an incentive of \$5.9 million for savings that are
 2 50% above the base target – a penalty to incentive ratio of 2.1. The Commission
 3 Staff proposal would result in a penalty of \$6.5 million for savings below 50% of
 4 the base target of 18.3 aMW and an incentive of \$4.1 million for savings that are
 5 50% above the base target – a penalty to incentive ratio of 1.6. These incentive
 6 and penalty calculations are presented in Exhibit No. ____ (CES-12)



7 **Q. Would the new proposed mechanism be subject to any other conditions or**
 8 **requirements?**

9 A. Exhibit No. ____ (CES-13) presents a list of requirements and conditions for the
 10 proposed incentive mechanism. Many of these requirements are the same as
 11 those proposed by Commission Staff, Public Counsel, and NWECC (*see* Exhibit
 12 No. ____ (JRS-8)). However, the Company differs from other parties in several
 13 points, which I will now discuss.

1 **Q. Should the new proposed mechanism be subject to the requirement that the**
2 **total program portfolio must meet a minimum average measure life of nine**
3 **years in order for the Company to be eligible for an incentive?**

4 A. No. The new proposed mechanism should not be subject to a minimum average
5 measure life. Having a minimum average measure life will decrease the
6 Company's flexibility to implement and expand a cost-effective portfolio of
7 electric energy efficiency programs. Having this requirement will give the
8 Company a perverse incentive to scale back or cut programs that have measure
9 lives less than nine years.

10 **Q. Are there programs that have measure lives less than nine years that may be**
11 **subject to being scaled back or cut if this requirement were put in place?**

12 A. Yes. As shown in Exhibit No. ___(CES-5), there are at least four programs that
13 have measure lives less than nine years. The first is the residential energy
14 efficiency rebates. This is the second largest program in the electric portfolio,
15 and it has a measure life of six years. Next is the NW Energy Efficiency Alliance
16 program. With a measure life of eight years, it would be subject to being scaled
17 back or completely cut if the minimum measure life requirement is put in place.
18 The other two programs are the LED traffic signal program, with a measure life of
19 seven years, and the resource conservation manager program, with a measure life
20 of three years. All of these programs produce cost-effective energy savings that
21 provide benefits to all ratepayers.

1 **Q. Should the Company be required to count energy savings from the**
2 **Northwest Energy Efficiency Alliance (NEEA) only from activities that**
3 **NEEA funded that program year?**

4 A. Although Public Counsel¹¹ and Commission Staff¹² have modified their proposals
5 to exempt program year 2007 from this requirement, the Company proposes to
6 delete this requirement altogether.

7 The Company takes credit for its share of the total annual savings reported by
8 NEEA using an approach that has been accepted by NEEA members. NEEA
9 conducts ongoing program evaluations to estimate savings and determine when to
10 stop counting those savings. Exhibit No. ___(CES-14) is a NEEA memorandum
11 discussing when to stop taking credit for such savings. In some cases, market
12 transformation activities can continue to produce new incremental energy savings
13 for a time after program funding is discontinued. The NEEA memo recommends
14 that a variety of factors be considered in the decision to stop counting savings.
15 Discontinuation of funding support is just one such consideration. In addition,
16 NEEA's estimates of program savings already include adjustments for retirements
17 of savings. As Exhibit No. ___(CES-14) indicates, NEEA is moving to resolve
18 such issues itself.

¹¹ See Public Counsel Response to PSE Data Request No. 10, copy provided as Exhibit
No. ___(CES-19).

¹² See revised Exhibit No. ___(JRS-8).

1 It would be premature to impose a specific restriction on energy savings from
2 NEEA programs when the issue is in the process of being addressed by NEEA
3 staff and membership. Once the issue is resolved by NEEA, the criteria for
4 stopping savings would be automatically incorporated into future estimates of
5 savings, making this requirement unnecessary.

6 **Q. Should the Company be required to establish an Evaluation Committee**
7 **separate from the Conservation Resources Advisory Group (CRAG) to**
8 **oversee verification of the savings used by the Company to determine the**
9 **annual incentive or penalty amount?**

10 A. The Company is willing to work with Commission Staff to thoroughly review its
11 calculations and procedures for determining the annual amount of energy savings
12 achieved each year. However, it is the Company's belief that a special committee
13 composed of several CRAG members or other outside parties is unnecessary and
14 duplicative of the role of the CRAG. The Company already discusses evaluation
15 issues with the CRAG and files a detailed program evaluation plan as part of its
16 energy efficiency program tariff filing with the Commission. In addition to the
17 extra administrative burden placed on Staff and the Company, such a Committee
18 would rely on the good will of some CRAG members to contribute additional
19 time beyond their normal CRAG duties. Reliance on regionally sanctioned
20 savings values from the Regional Technical Forum and results from specific
21 program evaluation studies developed through normal channels with the CRAG

1 will ensure that the energy savings claimed by the Company are in line with
2 regionally accepted values and standards.

3 **Q. Should the Company be required to pay any penalty amount within 90 days**
4 **of filing its Annual Report on Conservation Results?**

5 A. The Company does not object to this requirement with the caveat that the
6 Commission issues a decision on any appeal by the Company at least 30 days
7 prior to the date of any such penalty payment. To ensure a timely appeals
8 process, the Company would be required to file an appeal within 30 days of
9 issuing its Annual Report on Conservation Results.

10 **Q. Is it reasonable to provide for the new incentive mechanism to sunset after**
11 **three years?**

12 A. No. A more reasonable time period is five years. Five years will give all parties
13 more time to evaluate the program. For appropriate evaluation of programs such
14 as this, more time is needed to observe the cycles of implementation, review, and
15 actual disbursement of incentives and penalties occur. Given the lag of some of
16 these steps, a five-year initial time period is much more reasonable than three
17 years.

1 **III. NEW ELECTRIC DEMAND RESPONSE OPTIONS**

2 **Q. Why has the Company withdrawn its request for \$3 million to fund demand**
3 **response pilots?**

4 A. The Company is excited about and committed to the demand response pilot
5 programs set forth in my prefiled direct testimony. We had hoped that the other
6 parties would take the opportunity of this proceeding to work with the Company
7 to refine PSE's proposals and get the programs up and running. Because they
8 prefer instead to develop the programs outside of this proceeding and because the
9 Company will be able to seek cost recovery of the programs through the existing
10 electric energy efficiency tariff rider, Schedule 120, the Company is willing to
11 remove them from this rate case. In his supplemental direct testimony submitted
12 July 10, 2006, Company witness Mr. John Story makes an adjustment to remove
13 these costs (Adjustment 16.3).

14 **Q. Does the Company still intend to pursue demand response programs?**

15 A. Yes, the Company plans to work with parties through the CRAG process to
16 develop program designs, implementation plans and evaluation activities for a
17 variety of pilots, as originally proposed in this proceeding. The Company
18 recognizes the Commission's interest in this issue, as evidenced among other
19 things by the current Rulemaking to Review Public Utility Regulatory Policy Act
20 Standards (Docket No. UE-060649), currently under consideration by the
21 Commission.

1 **IV. GAS ENERGY EFFICIENCY**

2 **Q. What is your response to statements made by NVEC witness Steven Weiss**
3 **regarding the Company's natural gas energy efficiency targets?**

4 A. Mr. Weiss characterizes the 2006-2007 gas efficiency target as "troubling"
5 because it is less than the savings achieved in 2004 and 2005, as well as less than
6 the guidance level of gas efficiency identified in the Company's 2005 Least Cost
7 Plan.¹³ Mr. Weiss goes on to say, "Recent Company performance and Least Cost
8 Plans indicate there is considerable room for improved conservation
9 performance".¹⁴

10 I strongly disagree with the implication that the Company is not trying very hard
11 to aggressively pursue gas efficiency or has overlooked additional cost effective
12 program opportunities such that there is "considerable room for improved
13 conservation performance". The stretch target for 2006 – 2007 was discussed
14 with the CRAG in July and September 2005. At that time, the Company
15 explained that the six million therms of savings achieved in 2004 and 2005
16 included a one-time, unsustainable infusion of two million therms from
17 commercial pre-rinse sprayheads, which would make the 2004-2005 achievement
18 very similar to the 2006-2007 stretch target. The sprayhead campaign was a
19 focused, high saturation effort, similar to earlier programs that achieved large-

¹³ Exhibit No. ___(SDW-1T) at page 10.

¹⁴ Exhibit No. ___(SDW-1T) at page 11.

1 scale, unrepeatable installation of low-flow showerheads in the residential sector.
2 Such opportunities are not common and no such new opportunities have been
3 uncovered as if this time.

4 In an attempt to uncover new opportunities, the Company issued an "all-comers"
5 Request for Proposals (RFP) for energy efficiency from outside service providers
6 in November 2005, which expressed interest in several specific products,
7 including gas efficiency. In response to this RFP, the Company received five bids
8 for natural gas efficiency. After an extensive evaluation process, none of these
9 proposals showed enough potential to be selected. From the energy service
10 market's response to the Company's RFP, it is apparent that there are no easy or
11 obvious solutions to acquiring significantly more gas energy savings. The
12 Company has also introduced a new gas weatherization program and by the end
13 of the year (2006) will be able to evaluate whether significant, cost effective gas
14 savings can be achieved in the future.

15 Finally, I would like to add a word of caution about over-reliance on resource
16 plan results for setting program targets. Resource plans are intended to provide
17 guidance, based on general high level planning assumptions, for a general
18 strategy to meet utility energy needs. Sometimes the analysis may use over-
19 optimistic assumptions, which in hindsight do not match real market conditions.
20 Real-world implementation may be quite different and the target setting process
21 should have flexibility to recognize and adjust for these differences. Such
22 considerations and caveats are discussed in Chapter VII of the Company's 2005

1 Least Cost Plan. The Company has indicated to the CRAG that the gas energy
2 efficiency potential in the 2005 Least Cost Plan appears to have been
3 overestimated and the assumptions and calculations will be carefully reviewed for
4 PSE's 2007 Integrated Resource Plan.

5 **V. LOW INCOME WEATHERIZATION**

6 **Q. What is your response to NWEC's recommendation that the Company**
7 **increase its funding for Low Income Weatherization assistance by**
8 **\$1,000,000?**

9 A. NWEC witness Ms. Glaser states that a "survey of agencies indicates that an
10 additional \$1,000,000 is critical to reach more households in need of efficiency
11 services and to address the increased installation cost of various energy efficiency
12 measures. Roughly seventy percent of this funding would be used on electrically
13 heated dwellings".¹⁵

14 The Company will consider increased funding where there is clear evidence
15 supporting the amount of funds needed and that demonstrates the ability of
16 specific agencies to cost effectively spend the additional funds. However, Ms.
17 Glaser has relied on a series of informal telephone discussions between the
18 Opportunity Council and staff from a number of low income agencies regarding
19 how much extra funding each agency could use. The responses were verbal

¹⁵ Exhibit No. ___(NLG-1T) at page 12.

1 overall estimates based on the experience of the agency staff person
2 interviewed.¹⁶ No data or analysis showing the specific contributions of various
3 factors to this specific amount has been provided, including any estimates of the
4 actual increase in costs experienced by the agencies or the number of additional
5 residences that would be reached with the increased funds.¹⁷ No specific work
6 plan has been developed for this requested additional funding documentation.¹⁸
7 Nor has Ms. Glaser presented any evidence to support her recommendation that
8 seventy percent of the funding increase should be allocated to electrically heated
9 residences, which is based on a general policy judgement by the low income
10 agencies with no documentation.¹⁹

11 PSE works closely with CTED and low income agencies on an ongoing basis to
12 track program costs and achievements, as well as agency needs for support. The
13 Company has not received any data from CTED or directly from the agencies that
14 demonstrates increasing costs or a need for a specific level of additional funds.

15 The Company is willing to work with CTED and the low income agencies to
16 identify appropriate weatherization funding levels based on more thorough
17 analysis of each agency's specific needs.

¹⁶ See NWEC Response to PSE Data Request No. 16, copy provided as Exhibit No. ___(CES-20).

¹⁷ See NWEC Response to PSE Data Request No. 16, Exhibit No. ___(CES-20), and NWEC Response to PSE Data Request No. 18, copy provided as Exhibit No. ___(CES-21).

¹⁸ See NWEC Response to PSE Data Request No. 21, copy provided as Exhibit No. ___(CES-22).

¹⁹ See NWEC Response to PSE Data Request No. 19, copy provided as Exhibit No. ___(CES-23).

1 **VI. CONCLUSION**

2 **Q. Does that conclude your prefiled rebuttal testimony?**

3 **A. Yes.**