

**EXHIBIT NO. __ (JRD-8)
DOCKET NOS. UE-90704/UG-090705
2009 PSE GENERAL RATE CASE
WITNESS: JAMES R. DITTMER**

**BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION)	
)	
Complainant,)	
)	Docket No. UE-090704
v.)	Docket No. UG-090705
)	
PUGET SOUND ENERGY, INC.,)	
)	
Respondent.)	
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**EIGHTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
JAMES R. DITTMER
ON BEHALF OF PUBLIC COUNSEL**

November 17, 2009

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-090704 and UG-090705
Puget Sound Energy, Inc.'s
2009 General Rate Case**

PUBLIC COUNSEL DATA REQUEST NO. 434

PUBLIC COUNSEL DATA REQUEST NO. 434:

Please provide the following regarding any steps *implemented* to curtail growth in costs, or to actually reduce costs, as a result of the revised 2008 load forecast or general economic conditions of PSE's service territory (such steps would include, without limitation, reductions in travel and training budgets, layoffs or hiring freezes, changes to incentive compensation targets or expected pay outs, reductions in company overtime, reduced use of outside contractors, restricted use of outside professional services, deferred maintenance, rebidding of material purchases, etc.):

- a. A detailed discussion/description of steps undertaken and/or activities curtailed.
- b. Any written management directives addressing cutbacks or program changes issued to divisions, departments, work groups, other subsets of affected employees or contractors.
- c. Estimated of cost reductions or savings, including all underlying calculations and other support for each such estimated reduction or cost containment program/activity.
- d. Implementation date of each step/activity.

Response:

Puget Sound Energy, Inc. ("PSE") objects to Public Counsel Data Request No. 434 as overly broad and unduly burdensome. Public Counsel Data Request No. 434 purports to impose obligations upon PSE in excess of those required by the Washington Utility and Transportation Commission's discovery rules (WAC 480-07-400 through 480-07-425). Without waiving these objections, and subject thereto, PSE responds as follows:

PSE has been well aware of the economic conditions prior to the revised 2008 load forecast and, as described below, has addressed this issue throughout its prefiled direct evidence in this proceeding. PSE continuously balances costs against the need to invest to ensure safety, customer service and reliability. Despite current economic conditions, PSE must continue to invest in new generation and delivery infrastructure to meet growing customer demands and needs. There also continues to be upward cost pressures in many areas, including the escalating cost of materials and increasing

governmental regulations and reporting requirements. Finally, the utility industry continues to face a shortage of qualified employees, and there remains keen competition for such employees. Accordingly, PSE must continue to offer competitive compensation to retain existing employees and attract new employees despite the general conditions outside the industry.

The following is an overview of some of the cost savings measures in different areas of PSE, but details of specific cost savings are not always available because avoided costs are not specifically tracked.

Please see PSE's Response to Public Counsel Data Request No. 058 for more information regarding similar cost savings information.

Testimony

The Prefiled Direct Testimony of Eric M. Markell, Exhibit No. ___(EMM-1CT), beginning on page 28, provides an overview of PSE's cost management philosophy. In particular, PSE is very cognizant of general economic conditions, and PSE discussed this in its prefiled direct evidence. As described by Mr. Markell, PSE built in savings by freezing officers' salaries to 2009 levels and removed officer incentive pay from this proceeding, which together resulted in removing approximately \$1.8 million from the test year results.

On page 13 of the Prefiled Direct Testimony of Bertand A. Valdman, Exhibit No. ___(BAV-1T), PSE addresses the impact of the economic downturn on new construction. In addition, Mr. Valdman addresses cost savings of procurement practices on pages 16 and 17 of Exhibit No. ___(BAV-1T) and the creation of the Performance Excellence team to evaluate process and improve operations on page 57. Please see the section entitled, "Purchasing" in Exhibit No. ___(BAV-1T) for details of savings achieved. Please see PSE's Response to Public Counsel Data Request No. 108 for representative reports, studies and analyses performed by the Performance Excellence Team.

The Prefiled Direct Testimony of Thomas M. Hunt, Exhibit No. ___(TMH-1T), page 6, lines 3-7, explains that the executive salary increase for 2009 was eliminated. The estimated savings from this decision for one year is \$137,200. Exhibit No. ___(TMH-1T) also describes why PSE must remain competitive in the areas of compensation despite the current market conditions.

Operations

As a result of the slow down in new construction for gas and electric simple and complex work, Customer Construction Services ("CCS") redeployed employees to other areas of PSE. This enabled other departments with short-term needs to accomplish critical work while offering CCS staff additional opportunities for growth and learning.

Attached as Attachment A to PSE's Response to Public Counsel Data Request No. 434, please find a memorandum dated January 12, 2009 from Mr. Valdman, Chief Operating Officer, requesting staff to restrict travel and be judicious in the use of consultants.

Purchasing

The PSE Purchasing Department has implemented tactics and strategies to take advantage of the cost savings opportunities during the economic downturn. The Purchasing team is on track to meet the 2009 costs savings goal of 2% of controllable spend. Savings are calculated based on price reductions from contract renegotiations and competitive bidding, compared to the current or last purchase price, applied against estimated annual purchase quantity.

Below are examples of savings achieved and the date of implementation or savings realization:

- Pole-line Hardware (2008 Q4, Capital) = \$1.6 million
- Wood Poles (2009 Q3, Capital) = \$4.5 million
- Volt - Staff Augmentation (2009 Q3, Capital and O&M) = \$104,000
- Distribution Transformers (2008 Q4, 2009 Q1 and Q2, Capital) = \$1.75 million
- Substation Transformers - 25 MVA (2010 Q2/Q3, Capital) = \$262,000
- Gas Odorant (2009 Q3, O&M) = \$60,000
- Combustion Turbine Retaining Rings (2010, O&M) = \$348,000
- Information Technology Professional Services rate reductions (2009, Capital and O&M) = \$294,000

Natural Gas Resources

Over the last 12-15 months, Natural Gas Resources has worked to minimize resource acquisition costs in light of the current economic climate. Principally, staff have looked for stranded resources and modified long-term acquisition strategies to serve growing natural gas requirements for the power book. Some examples include:

- Procured discounted pipeline capacity to serve gas-fired generation resources, such as:
 - procured 9,000 Dth/d of firm Northwest Pipeline Company ("NWP") pipeline capacity for the Mint Farm Generating Station ("Mint Farm") at a rate of \$.15/Dth (about 40% of maximum tariff) -- term of January 1, 2009 - March 31, 2009;
 - procured 25,000 Dth/d of firm NWP pipeline capacity for Mint Farm at a rate of \$.15/Dth (about 40% of maximum tariff) -- term of November 1, 2009 - September 30, 2012;
 - negotiated terms for 25,000 Dth/d of firm pipeline capacity for the power book portfolio at 60% of maximum tariff (about \$.23/Dth) -- term of Apr 1, 2010 through Mar 31 2013, with a PSE option to take assignment permanently at max rates (negotiations are in the final stages); and

- procured approximately 25,000 Dth/d of permanent, firm Westcoast Energy pipeline capacity at an effective discount of approximately 15% (lump-sum cash payment of CAD\$4.5 million).
- Swapped Jackson Prairie storage service for Clay Basin storage service (gas book transaction), which results in both lower storage service costs and firm storage redelivery costs.

The above items represent the most cost effective resources for our customers, irrespective of the economic climate.

- Significantly modified long-term pipeline capacity strategies:
 - reduced pipeline project commitments from 250,000 Dth/day to 150,000 Dth/day (for meeting requirements thru 2016);
 - abandoned plans (at least in the short-term) to contract for Rocky Mountain-sourced pipeline capacity (eliminating over \$40 million in future pipeline costs for the aforementioned 150,000 Dth/day);
 - reconsidered the strategy of participating in new infrastructure projects and are exploring existing NWP capacity to meet current needs at vintage rates; this potential strategy change continues to be reviewed as PSE negotiates existing capacity arrangements to ensure that they are available on a long-term basis and analyzes the long-term implications of not participating in new infrastructure projects

Even though the region (not just PSE) is in need of natural gas infrastructure to serve natural gas infrastructure, PSE has decided to forego adding infrastructure at this time in order to avoid a burden to the customer in this economic climate.

Tax Savings:

- Repairs/Units of Property accounting method change: About \$46 million refund opportunity. Savings associated with this change will be reflected in PSE's next general rate case. See PSE's Response to FEA Data Request No. 2.03 for more information regarding such tax savings;
- Bonus depreciation: \$131 million tax deduction in PSE's 2008 tax return;
- While the net book value of plant increased 4.8% from 2007 to 2008, property taxes increased only 1.5%. The long term trend shows that from 2005 to 2008, net plant has increased 29.5%, while property taxes increased only 11.9% over the same period. This is a reflection of PSE's review and challenge of assessments with the Washington State Department of Revenue;
- Low-Income Home Energy Assistance Program ("LIHEAP") credit of \$998,000 in 2008; and

- Jackson Prairie sales tax settlement. See PSE's Response to Public Counsel Data Request Nos. 335 and 409 for more information regarding the Jackson Prairie sales tax settlement.

Power Generation

- Thermal Assets has not filled four Combustion Turbine ("CT")-Journeyworker apprenticeship positions that have opened during 2009 and currently remain vacant;
- Hydro Assets has not filled four Hydro-Journeyworker positions that have opened during 2009 and currently remain vacant;
- PSE's wind group is negotiating the service and maintenance agreement with Vestas, which should reduce the growth rate in new project service costs. The new service agreement should also create improved incentives to increase production availability and reliability above pre-construction estimates;
- PSE's wind group is developing a revised organization and staffing plan aimed at reducing the number of incremental management personnel needed for future wind projects deploying lower level personnel for many oversight and support tasks; and
- Power Generation has implemented a computerized maintenance management system to improve maintenance efficiency, machine reliability, work scheduling, notifications tracking and follow-up analysis.

Human Resources

- Please see PSE's Response to Public Counsel Data Request No. 035 for a description of PSE's methods for controlling the growth of benefits costs by, such as (1) adding health plan design features that encourage employees to actively manage their healthcare, which should avoid high costs from undiagnosed chronic conditions that become health crises; (2) communicating the value of wellness and offering tools for employees to improve their health; and (3) reducing the length of duration of disability absences through accommodation services and transitional duties. These are ongoing PSE actions and were taken in response to the ongoing cost increases of health care.
- In addition, PSE was able to control the rate of medical cost increases for 2010 by negotiating a lower rate from medical insurance carriers that resulted in a reduction of flexible credit increase for 2010 than in prior years. PSE and the IBEW and UA unions agreed to a 4.75% flex credit increase for 2010. Recent economic conditions were one factor that both PSE and the union representatives considered while reaching the negotiated increase. Compared to the prior year's 8% flex credit increase, the 4.75% rate for 2010 represents

**ATTACHMENT A to PSE's Response to
Public Counsel Data Request No. 434**

From: Valdman, Bert

Sent: Monday, January 12, 2009 7:31 AM

To: Barard, Agnes; Bussey, Phil; Gilbertson, Booga K.; Hobbs, Michael G; McLain, Sue; Tada, Jennifer R; Wolf, Rudiger

Subject: Opportunities and costs

We achieved many successes in 2008. As we begin 2009, there are a number of opportunities to continue to increase service quality and productivity. This is very exciting!

We are all bound together by a commitment to serve our customers. This means providing reliable service and, importantly, keeping rates low. In the current difficult economic environment limiting as best we can the level of operating costs we pass through in rates is especially important to our customers. Cost control is key, and this has been an area of strength in operations. Even with this discipline, costs continue to outpace our ability to recover them in rates, largely due to system growth and increased federal and state regulatory compliance requirements. In 2009 we will need to again aggressively manage our costs. To that end, I have three requests:

1. Continue your persistent focus on managing costs—no expenditure is too small, every dollar counts.
2. Use external consultants judiciously. The hiring of consultants (other than activities contracted for the normal course of business - such as a major project) must be approved by me prior to engaging the consultant. In addition to coordinating with your own leadership team, please work with Gilbertson and Funai in summarizing the request, leveraging existing consultants, and utilizing our procurement/purchasing process.
3. Limit travel as much as practical. All out of area (Washington and Oregon) travel must be approved in advance by one of my direct reports.

Finally, let's not only focus on cost savings, but continue to do what we've done so well in the past: manage our business in ways that are better and more efficient by being innovative, taking measured, thoughtful risk, and trying new approaches.

Please forward this email to your direct reports as appropriate.

Thank you.

Bert

**ATTACHMENT B to PSE's Response to
Public Counsel Data Request No. 434**

BENEFITS NEWS

FOR SELECTIONS MEMBERS

September 2009



What's Inside:

- ◆ PSE medical plan comparison
- ◆ Comparison of 2010 plan costs and savings
- ◆ Open Enrollment 2010
- ◆ Tips for reducing your out-of-pocket costs

ADVANCE NOTICE TO REGENGE SELECTIONS ENROLLEES Selections plan will not be offered in 2010

As an enrollee in the Regence Selections plan, you know that the premiums have been steadily increasing. In fact, when you combine the cost of premiums and co-pays, employees enrolled in the Selections plan are paying more than they would with the same medical usage on the PPO plan. In addition, high claims from the Selections plan have been driving up the costs of all of our Regence plans.

For these reasons, PSE's three Joint Health & Welfare Committees — one each for IBEW, UA and non-represented employees — recently re-evaluated the merits of offering the Selections plan. After careful consideration, they voted not to offer Selections in 2010.

The majority of the members of the committees believe that dropping Selections is in the best interest of all employees. Enrollment in Selections has been falling over the years, and the plan had the fewest number of PSE employees enrolled. The increasing cost of the plan has become unsustainable. For 2010, the plan would have cost \$19,500 to cover a family and \$8,500 to cover an employee only. Without Selections, you and PSE avoid this cost. Furthermore, the more favorable claims experience that we expect without Selections should help our other plans experience smaller increases.

When it's time to enroll for 2010 benefits, you will be able to select from among three plans: Group Health Options, Regence Preferred PPO and Regence Traditional. You'll be glad to know that *all providers that were in the Selections network are available through the remaining Regence plans*. If you prefer a plan with a co-pay, Group Health's Options Plan is an excellent choice. It's our lowest cost plan and is favored by almost half of all PSE employees.

We know this is a change for you and that you'll have questions. This issue of *Benefits News* provides information to help you compare plans and maximize your budget:

- Comparison of plan features
- Cost comparison, per pay period
- Tips for reducing your out-of-pocket costs

If you have specific questions about the PPO or Traditional Plans, call Regence directly at 1-800-544-4246 or Group Health Options at 1-888-901-4636.

Open
Enrollment
begins October 16
and ends
November 1

PSE

PUGET SOUND ENERGY

The Energy To Do Great Things

PSE medical plan comparison

	Selections (discontinued)	PPO and Traditional	Group Health Options
<p>Preventive services</p> <p>Preventive coverage includes services such as pediatric, gynecological and adult annual physical examinations, including DOT physicals when received as part of an annual preventive check-up. Routine mammograms and cancer screenings such as colonoscopies continue to be paid in full. There are no co-pays in the PPO or Traditional Plan; there is a \$20 co-pay under the Options plan.</p>	<p>You pay a \$20 co-pay for each office visit for preventive services.</p>	<p>Preventive services in the PPO and Traditional Plans have no out-of-pocket cost to you. These services are not subject to a deductible or coinsurance.</p>	<p>You pay a \$20 co-pay for each office visit for preventive services.</p>
<p>Primary care physician (PCP)</p> <p>It's important to have a PCP for routine medical care. Some plans require you to select and use a PCP to coordinate all your care, including seeing a specialist.</p>	<p>You are always required to pay a \$20 office visit co-pay and go to your PCP for coordination of your health care needs. The exceptions are emergency care, annual vision check-ups and routine women's care services — a co-pay is still required for these.</p>	<p>You are not required to see your primary care physician before seeing a specialist — you can self-refer to a specialist. If you see a network doctor, your costs are significantly less than if you use an out-of-network provider.</p>	<p>You are always required to pay a \$20 office visit co-pay and go to your PCP for coordination of your health care needs. The exceptions are emergency care, annual vision check-ups and routine women's care services — a co-pay is still required for these.</p>
<p>Provider networks</p>	<p>The Selections network is considerably smaller than the other plans offered by Regence. Some employees have found that restrictive</p>	<p>The networks for the PPO and contracted physicians with the Traditional plan are very broad. Here are the providers available to you:</p> <ul style="list-style-type: none"> • PCPs: 207 • Specialists: 3,348 • Other medical care providers: 7,880 • Facilities: 26 <p>All of the providers in the Selections network are included in the larger PPO network.</p>	<p>Group Health network providers offer you 100% coverage after you pay a \$20 per visit co-pay. If you wish to have specialist services, Group Health contracts with the First Choice Health Network, which also provides in/out-of-network options with an extension network of providers from which to choose. Use of these providers requires a \$200 deductible and 20% coinsurance paid by you.</p>
<p>Office visit co-pays and costs</p>	<p>Selections requires an office visit co-pay of \$20 every time you have an office visit. Office visit co-pays of \$20 under the Selections plan do not apply towards your annual out-of-pocket maximum. What that means to someone who is a frequent user of medical plan services is that you are always paying a \$20 co-pay regardless of the number of visits you have in a calendar year.</p>	<p>The PPO and Traditional plans do not require a co-pay, but you are responsible for the first \$250/\$1,000 in services (called a deductible). After that, the plan pays 80% and you pay 20% (for example: \$24 for a \$120 physician visit). Upon meeting your annual deductible (\$250/PPO; \$1,000/Traditional) and out-of-pocket maximum of \$1,000 the plans pay 100%.</p>	<p>If you prefer a co-pay plan, the Options plan offers the choice of Group Health doctors in-network for a \$20 co-pay. If you choose to use non-Group Health physicians, you have the option to go out-of-network with a \$200 deductible and 20% coinsurance.</p>

Comparison of 2010 plan costs and savings

(Payroll deductions shown are for 24 pay periods)

Cost per pay period — 24 pay periods				
	Group Health Non-Rep/UA-Rep	Regence Traditional	Regence PPO	Regence Selections (discontinued)
Employee only	\$182.00	\$244.50	\$299.50	\$355.00
Employee + family	\$465.00	\$551.50	\$683.50	\$812.50
IBEW only				
Employee only	\$242.50			
Employee + family	\$591.00			

Savings per pay period compared to 2010 Selections plan — 24 pay periods			
	Group Health Options compared to Selections	Regence Traditional compared to Selections	Regence PPO compared to Selections
Employee only	\$173.00	\$110.50	\$55.50
Employee + family	\$347.50	\$261.00	\$129.00
IBEW only			
Employee only	\$112.50		
Employee + family	\$221.50		

If you do not actively enroll in a medical plan, PSE will enroll you and your enrolled family members into the Regence PPO plan.

Open Enrollment 2010

Open Enrollment is coming up soon — October 16!
 When it begins, go into the online system as you do each year to see what PSE Flex Credits are being offered for 2010. Check out all of your plan options, including dental, AD&D, life, LTD and flexible spending accounts. Make your plan elections and review your Confirmation Statement during the grace period provided. Open Enrollment communications will be mailed to your home in October.



If you do not actively enroll in a medical plan, PSE will enroll you and your enrolled family members into the Regence PPO plan. (An exception is Domestic Partner coverage. Their coverage will not roll over.) *Remember that no changes to your enrollment can be made after the Open Enrollment grace period ends in November.*

It's your money and your benefits — take the time to understand your benefit package and enroll based on your needs. If you have specific questions about the PPO or Traditional Plans, call Regence directly at 1-800-544-4246 or Group Health Options at 1-888-901-4636.

Tips for reducing your out-of-pocket costs

If you know that you use your medical plan a lot and are worried about coming up with a deductible and coinsurance of 20 percent until the plan pays in full, you have some options:

With the money you will no longer be paying in premiums from each paycheck for the Selections plan — regardless of whether or not you needed any services — you can open a health care reimbursement account. The money is deducted from each paycheck pre-tax over the course of the entire year, but *the total amount you elect is available to you on January 1, 2010*. You can pay your bills from this amount using your reimbursement account debit card. Review this option carefully by reading next month's Open Enrollment Newsletter and the Benefits Guide. *There is a "use it or lose it" provision*. It's important to understand how the plan works to maximize its advantages to you.

Example

- If you set aside \$1,000 for 2010 and you are paid 24 times a year, your paycheck will be reduced pre-tax by \$41.67 each payday.
- Assume that the first time you see the doctor in the PPO plan, your cost is \$300.
- Simply pay the bill using your debit card. (Nothing out of your pocket is needed to pay the doctor.)
- Or pay the bill and reimburse yourself by submitting a claim form. It's that simple, and you have the money in hand to pay for your portion.
- It's all pre-tax, so you've saved yourself from Uncle Sam as well.



If you don't want to enroll in a health care reimbursement account, set aside the same money in the PSE Credit Union or a savings account where you have easy access. If you need the money for medical services, you have it. If you don't, you have the money to spend on other needs/desires because you didn't send it to Regence to pay for Selections premiums.

