

**EXHIBIT NO. BAV-10CT  
DOCKET NOS. UE-090704/UG-090705  
2009 PSE GENERAL RATE CASE  
WITNESS: BERTRAND A. VALDMAN**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-090704  
Docket No. UG-090705**

**PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF  
BERTRAND A. VALDMAN  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED  
VERSION**

**DECEMBER 17, 2009**

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**PUGET SOUND ENERGY, INC.**

**PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF  
BERTRAND A. VALDMAN**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF**  
3 **BERTRAND A. VALDMAN**

4 **I. INTRODUCTION**

5 **Q. Are you the same Bertrand A. Valdman who provided in this proceeding**  
6 **prefiled direct testimony, Exhibit No. BAV-1T, on May 8, 2009?**

7 A. My name is Bertrand A. Valdman. My business address is 10885 N.E. Fourth  
8 Street, Bellevue, Washington 98004. I am the Executive Vice President and  
9 Chief Operating Officer for Puget Sound Energy, Inc. (“PSE” or the “Company”).

10 **Q. What is the purpose of this prefiled rebuttal testimony?**

11 A. PSE is committed to providing quality customer service and managing resources  
12 wisely. Part of this commitment includes controlling the costs associated with  
13 delivering electricity and natural gas to PSE’s customers while at the same time  
14 maintaining high levels of service quality, safety, compliance, and reliability.

15 PSE understands that these are difficult times for its customers and PSE is  
16 working to further reduce costs while maintaining a level of service quality and  
17 reliability that the customers demand.

18 Nevertheless, the Company has increasing and substantial cost pressures as a  
19 result of aging infrastructure, expanding customer base, need to acquire and retain

1 talented employees, unforeseen storm events, and need to comply with  
2 increasingly stringent safety, reliability, and environmental standards. These cost  
3 pressures are occurring simultaneously and have escalated to the point that costs  
4 related to the Company's gas and electric infrastructure investments and  
5 maintenance reflected in the test period for this case are already below the costs  
6 that the Company anticipates incurring during the rate year and beyond.

7 Even while experiencing the impacts of regulatory lag and under-earnings on  
8 regulatory utility assets as evidenced by Mr. Eric Markell's Exhibit No. EMM-  
9 4C, PSE has continued to act in its customers' and the community's best interest  
10 making high levels of capital investments in its energy delivery system as detailed  
11 in Exhibit No. BAV-6C. The Company has also incurred increasing operations  
12 and maintenance ("O&M") expenses in order to provide the safe, reliable, quality,  
13 and compliant service that PSE's customers expect.

14 My rebuttal testimony will respond to testimony of Public Counsel witness, James  
15 R. Dittmer, who proposes adjustments based on the premise that the expected cost  
16 increases that have occurred since the test year and that are expected to occur  
17 during the rate year will be offset by efficiency gains, deflation for other cost of  
18 service components, as well as PSE's existing cost containment initiatives. PSE's  
19 existing cost containment initiatives do not neutralize cost pressures; nor do they  
20 neutralize the higher costs implicit in the compliance burden that the electric and  
21 gas industry is experiencing.

1 I also address Commission Staff witness Michael D. Foisy's proposed elimination  
2 of the increases in service contract baseline charges for both transmission and  
3 distribution on the basis that costs are not known and measurable. In fact, the  
4 increases in service contract baseline charges are known and measurable based on  
5 current and historical data.

6 **II. PSE'S EXPECTED COST INCREASES ARE NOT OFFSET**  
7 **BY EFFICIENCY GAINS, DEFLATION OR COST**  
8 **CONTAINMENT INITIATIVES**

9 **Q. Does PSE agree with Mr. Dittmer's assertion that expected cost increases**  
10 **will be "offset" in the form of efficiency gains or deflation for other cost of**  
11 **service components, as well as PSE's existing cost containment initiatives?**

12 A. No. As outlined more specifically below, PSE does not agree with his assertion  
13 that these increases will be offset. In effect, Mr. Dittmer testifies that PSE should  
14 somehow be penalized for good decisions made to maintain and operate its  
15 system in such as way so as to create efficiencies and productivity gains. Indeed,  
16 the Company and its customers have, and will, benefit from new technology and  
17 equipment introduced by PSE to better its system. However, this does not negate  
18 the fact that PSE has incurred and will continue to incur expenses for the  
19 equipment, training and maintenance of this system – for the benefit of its  
20 customers – and should be allowed to recover the expenses through rates. PSE  
21 should not be penalized by Mr. Dittmer's generalization that somehow actions  
22 taken to control costs reduce historical costs and therefore future costs are

1 reduced.

2 **A. Efficiency Gains**

3 **Q. Do you agree with Public Counsel’s assertion that productivity increases are**  
4 **a valid basis to “offset” PSE’s costs?**

5 A. No, PSE does not believe that productivity increases are a valid basis to “offset”  
6 PSE’s costs. To illustrate his point, on pages 22-24, Mr. Dittmer refers to certain  
7 “technological advances” that PSE has embraced to achieve efficiencies. In doing  
8 so, he testifies that PSE’s costs in purchasing and instituting these technologies  
9 should be offset by the productivity increases they create. While these new  
10 technologies may indeed mitigate or reduce future potential cost increases and/or  
11 exposures, the efficiency gains do not reduce PSE’s historical costs, nor do they  
12 offset monies expended to purchase or upgrade and maintain these systems. The  
13 new equipment and technology allow the Company to operate and maintain the  
14 transmission and distribution system in a manner necessary for the safe, reliable  
15 and efficient delivery of energy. Furthermore, the examples of productivity  
16 increases brought forward by Mr. Dittmer do not quantify known and measurable  
17 cost savings.

18 **Q. Do you agree with Mr. Dittmer’s testimony on page 24 that the efficiencies of**  
19 **PSE’s new bill processing equipment should offset PSE’s costs?**

20 A. No. With regard to PSE’s new bill processing equipment, Mr. Dittmer testifies

1 that PSE “employed capital in anticipation of achieving efficiencies and savings”  
2 and claims that for this reason, PSE’s costs have been offset. Mr. Dittmer’s  
3 analysis is incorrect. PSE did not purchase the new bill processing equipment to  
4 “achieve efficiencies and savings.” PSE purchased the new equipment because  
5 the equipment was old and required replacement. It was the most cost effective  
6 solution to deal with high maintenance equipment that was well beyond its useful  
7 life. Equipment maintenance and availability of replacement parts precluded PSE  
8 from being able to continue to utilize the old equipment. If PSE had not installed  
9 this new equipment, PSE customers would be at risk of delays in having  
10 payments applied to their accounts. Nevertheless, the installation of this bill  
11 processing equipment was a replacement of its existing ability to process bills and  
12 is not a basis for offsetting PSE’s costs.

13 **Q. Did the installation of this new bill processing equipment reduce the number**  
14 **of employees needed for customer service?**

15 A. No. This new equipment installation did not decrease the number of employees  
16 needed to provide service to customers. Instead, it allowed for an opportunity to  
17 realign existing employees to be reassigned to perform other necessary customer  
18 service work thereby potentially reducing the need for future cost increases.

19 When PSE’s employees are more efficient, that efficiency translates into  
20 additional productive capacity to do other work required by increased customer  
21 service demands, maintenance requirements and compliance standards. *See also*  
22 Thomas M. Hunt’s rebuttal testimony in this regard.

1 **Q. Do you agree with Mr. Dittmer's testimony on pages 23-24 that the**  
2 **efficiencies of PSE's enhanced SAP system should offset PSE's costs?**

3 A. No. Mr. Dittmer's reference to the enhancement of its SAP system to track  
4 NERC and WECC electric system reliability compliance requirements is also  
5 pointing to a system enhancement that helps reduce future cost increases. Mr.  
6 Dittmer's allegation that the efficiency of this software has somehow offset costs  
7 is not quantified; nor is it supported. On the one hand, Mr. Dittmer praises PSE's  
8 2008 enhancement to its SAP software system by stating: "Suffice it to say, the  
9 capital and any other upfront costs of the new/enhanced software systems are  
10 justified by expected efficiencies or savings in ensuing months and years as the  
11 systems create process improvement and cost savings." On the other hand, Mr.  
12 Dittmer states that this efficiency is a reason to offset PSE's costs. Mr. Dittmer  
13 cannot have it both ways. PSE has incurred the cost of installing this system, the  
14 cost of training employees to use the system, and the cost of routine maintenance  
15 of the system. The installation of this software product was appropriate and  
16 allows PSE to track and document its operational compliance.

17 The implementation of the SAP system was not made to replace an existing  
18 technology or process. It is a system needed to keep track of growing compliance  
19 requirements, and it allows the Company to maintain its system so that these  
20 compliance requirements are met. PSE is not necessarily seeing any new  
21 "efficiencies" with the system, as the system has required a relocation of  
22 employees and additional training to run. As previously discussed, the

1 increasingly stringent compliance standards carry with them increasing  
2 operational costs. This software is one of those increased costs. PSE's  
3 installation and use of this software did not result in any offsets. Instead, it will  
4 allow PSE to provide a safe and reliable operation that meets compliance  
5 standards.

6 **Q. Do you agree with Mr. Dittmer's testimony on pages 24-25 that the**  
7 **efficiencies of PSE's Mobile Workforce Project should offset PSE's costs?**

8 A. No. Mr. Dittmer referred to PSE's installation of the electric Mobile Workforce  
9 system alleging that the costs of the system are somehow offset by efficiency  
10 gains. As with the replacement of the billing machines and the adoption of the  
11 new compliance tracking software, the adoption of PSE's Mobile Workforce  
12 system was done to maintain the level of cost-effective service to respond to  
13 emergencies (such as gas leaks, electrical outages, floods, fires, landslides, traffic  
14 accidents, crime scene investigations or other public service emergencies), and  
15 meet customer service standards, including PSE's service quality indices  
16 ("SQI's), and compliance requirements. New mobile computers have been placed  
17 in PSE electric and gas first responder vehicles so that employees may be  
18 dispatched more effectively in real time and more information is available for  
19 PSE customers. With a growing number of customers to serve and more system  
20 to manage, the mobile system has allowed the Company to do so without adding  
21 new personnel. Additionally, it allows for increased communication with PSE  
22 customers and employees, which assists in PSE's response to emergencies, meet

1 its customer service standards and compliance requirements. PSE has incurred  
2 the initial cost of the equipment as well as continued maintenance of the system  
3 and equipment, and training costs. The installation and use of the Mobile  
4 Workforce system should not be utilized to offset certain necessary cost increases.

5 **B. Deflation**

6 **Q. Mr. Dittmer testifies on page 29 that recent reductions in metals commodity**  
7 **prices should “offset price increases for labor, benefits and other cost of**  
8 **service components.” Do you agree with this statement?**

9 A. No. Mr. Dittmer’s assertion is not correct. PSE does not typically purchase these  
10 metal commodities in raw form. PSE purchases finished goods such as energy  
11 delivery system components like transformers, piping, switches, cable, or valves.  
12 Metal commodities typically comprise only a portion of the cost of the finished  
13 components. These components include other costs not mentioned by Mr.  
14 Dittmer such as design, engineering, production labor, freight, warehousing,  
15 supplier margins and taxes in addition to the metal components. Additionally,  
16 governmental regulations are placing increasing cost pressures when acquiring  
17 certain energy delivery system components, for example Department of Energy  
18 transformer efficiency standards may require PSE specify and utilize a more  
19 costly transformer than PSE’s previous specifications called for. Approximately  
20 85% of PSE corporate procurement is associated with capitalized materials and  
21 equipment. As stated by Mr. Dittmer (on page 29 of his testimony), there is a

1 “greater impact upon [] the purchased price of items capitalized to plant in  
2 service”. PSE agrees with this statement, as stated above, approximately 85% of  
3 PSE corporate procurement is directed to capitalized assets, which has an  
4 increasing cost impact for depreciation expense. This fact is in direct conflict  
5 with Mr. Dittmer’s proposal to offset certain necessary non-capital or O&M cost  
6 increases.

7 It is also important to note that some commodity costs that PSE utilizes are  
8 experiencing cost *increases*. For example concrete products for construction,  
9 sand, gravel and crushed stone have either increased or remained unchanged  
10 during the period September 2008 to September 2009. *See* Exhibit No. JRD-6.  
11 This is the same time period referenced by Mr. Dittmer where he states on page  
12 29: “I believe it can be expected that materials expensed during the 2008 test year  
13 will also be reduced prospectively.”

14 Additionally, Mr. Dittmer glosses over the fact that PSE is replacing old  
15 equipment with new equipment. In many cases this equipment is many years,  
16 even decades, old and as with most equipment replacements, new equipment is  
17 more expensive than old and carries with it an increased depreciation cost. As  
18 referenced in my prefiled direct testimony, the cost to purchase and install a 45-  
19 foot distribution pole has increased from \$612 in 1978 to over \$3,600 in 2008.  
20 Likewise, the cost to purchase and install two-inch diameter plastic gas main has  
21 increased from \$3 per foot in 1978 to \$29 per foot in 2008. Again, the impact of  
22 such asset replacements result in greater depreciation expense and return on

1 capital costs that create increasing rate pressures.

2 **Q. Please address Mr. Dittmer's assertion that diesel and gasoline prices will be**  
3 **lower in the rate year.**

4 A. PSE experienced diesel and gasoline prices that varied throughout the test year.  
5 For example during 2008, gasoline prices varied from under \$2 to over \$4 per  
6 gallon and diesel prices ranged from less than \$3 to nearly \$5 per gallon.  
7 Additionally, current diesel and gasoline prices exceed those experienced during  
8 late 2008. PSE obtains the majority of its non-generation diesel and gasoline  
9 through purchases at retail prices. PSE does not speculate as to future diesel and  
10 gasoline prices and believes Mr. Dittmer's statement that prices for these products  
11 are expected to be significantly lower during the rate year ending March 2011 is  
12 purely speculative.

13 Furthermore, historically speaking the cost of diesel and gasoline has been  
14 relatively minor compared to PSE's other expenditures and ranged from  
15 approximately \$3.6 million to \$4.5 million during the 2006 to 2008 time period.  
16 PSE believes that fluctuations in diesel and gasoline retail prices will have  
17 minimal impact on PSE overall revenue requirement. PSE is employing more  
18 fuel efficient vehicles, such as hybrid pool cars and a hybrid line service truck, to  
19 reduce fuel consumption and environmental impacts. PSE also encourages  
20 employees to share the ride or utilize public transportation while commuting or  
21 attending company meetings again to reduce fuel consumption and environmental

1 impacts. These actions help control future cost increases and benefit customers',  
2 and the community's, interests by minimizing costs and lessening environmental  
3 impacts.

4 **C. Cost Containment**

5 **Q. How can the Commission and its customers be assured that PSE is**  
6 **controlling its costs?**

7 A. As I stated in my direct prefiled direct testimony, and as shown on Exhibit  
8 No. BAV-3, PSE remains one of the lowest cost providers among investor-owned  
9 combined electric and gas utilities in the United States. As is shown in the exhibit  
10 this comparison is based on all non-production/generation operations and  
11 maintenance expenses and is measured on a cost-per-customer basis. PSE  
12 achieves this low cost benefit through continuous process improvement – rigorous  
13 cost control, implementation of operating efficiencies and best practices. This is  
14 an ongoing initiative.

15 **Q. Does the Company agree with Mr. Dittmer's recommendation on "to cut**  
16 **costs and defer activities that do not have longer term safety implications"**  
17 **(page 30, lines 19-22)?**

18 A. No. As noted by Mr. Markell in his rebuttal testimony, safety is but one  
19 important criterion used for PSE's investment and operating activities. PSE  
20 strives to balance long-term service, maintenance and reliability goals with short-

1 term cost expediencies. In my experience, deferral of O&M costs usually results  
2 in greater long-term expenditures and could also result in compliance challenges  
3 or poor customer service quality. The Company understands that the economy is  
4 currently depressed and many of its customers are struggling. However,  
5 regardless of the economy, PSE is required to be good stewards on behalf of its  
6 customers and it would be irresponsible to postpone critical maintenance for short  
7 sighted cost-cutting.

8 Moreover, much of PSE's expense in maintenance and repair is required by  
9 compliance standards that do not contemplate deferring maintenance due to a  
10 down economy. A deferral, in many instances, would result in compliance  
11 violations. Furthermore, delay of repair and maintenance to PSE's system could  
12 result in decreased reliability and decreased customer satisfaction.

13 **Q. Would a deferral of critical maintenance as suggested by Mr. Dittmer result**  
14 **in higher cost "catch up" maintenance?**

15 A. Given the historically increased costs of labor and manufacturing, I would expect  
16 that deferring critical maintenance would create significant "catch-up" costs in the  
17 future. As discussed in my direct testimony and summarized below, PSE has seen  
18 the costs of manufacturing and labor consistently increase through the years. In  
19 addition to concerns of reliability and compliance, a deferral in critical  
20 maintenance would unnecessarily increase future costs to customers.

1 **Q. Has PSE experienced additional or increasing costs during the recent down**  
2 **economy?**

3 A. Yes, even during a down economy PSE has experienced additional or increasing  
4 costs. PSE is tasked with providing safe and reliable energy service to its  
5 approximately 1.8 million customers during all economic conditions. While PSE  
6 is currently experiencing lower customer growth rates, new customers continue to  
7 be added and existing customers require reliable service.

8 **Q. Please provide examples of the additional or increasing costs PSE**  
9 **experienced during the recent down economy?**

10 A. As I stated in my prefiled direct testimony, during 2009 PSE is experiencing  
11 increasing costs related to mandated energy delivery system compliance  
12 requirements, such as the mandated NERC/WECC requirements. Additional costs  
13 come in the form of labor, contractor costs and technology system additions or  
14 upgrades.

15 Additionally during 2009, PSE is also experiencing additional costs to provide a  
16 higher level of customer service for its Call Center. To provide this higher level  
17 of customer service, PSE has added approximately 90 seasonal customer service  
18 positions. These staff additions are needed to maintain consistent service levels  
19 on a monthly basis, answering 75% of customers call within 30 seconds as

1 required by Service Quality Index No. 5<sup>1</sup> providing greater capacity to respond to  
2 customer calls during period of high call volumes, such as storm or other  
3 emergency conditions.

4 **Q. Does PSE use procurement practices to manage the prices of goods and**  
5 **services so as to reduce expenditures during the recent down economy?**

6 A. Yes. As stated in my prefiled direct testimony, PSE's procurement team is able to  
7 obtain favorable pricing and preferential terms through ongoing competitive  
8 sourcing initiatives, targeted and direct negotiations with key suppliers, and  
9 leveraging relevant market data.

10 **Q. Do you think that the Company's treatment of O&M expenses is**  
11 **appropriate?**

12 A. Yes, the Company's unadjusted, proposed budget is a responsible request to  
13 maintain the existing infrastructure and to assure for the safe, compliant, and  
14 reliable delivery of energy to communities that we serve.

15 **Q. If Public Counsel and Commission Staff are successful, what effect would the**  
16 **proposed adjustments have on PSE's operations?**

17 A. As discussed by Mr. Markell, the proposed adjustments represent in excess of \$65  
18 million. To illustrate the point, this reduction is the equivalent of laying off  
19 approximately 580 employees. It would constitute approximately 20% of our

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<sup>1</sup> As stipulated to in Docket Nos. UE-072300 and UG-072301.

1 total operating budget and 55% of our reliability budget. A reduction of this level  
2 would negatively impact PSE's ability to meet its service quality indices, safety  
3 and compliance standards; and to provide the levels of quality and reliability of  
4 service that PSE's customers expect. In these economically trying times it would  
5 seem unwise to reduce PSE's capability to maintain and provide the energy  
6 infrastructure necessary to support an economic recovery.

7 **III. INCREASES TO QUANTA SERVICE PROVIDER**  
8 **TRANSMISSION AND DISTRIBUTION**  
9 **CONTRACTS ARE KNOWN AND MEASURABLE.**

10 **Q. Please specify the adjustment Mr. Foisy is proposing.**

11 A. Mr. Foisy proposes to eliminate increases to Quanta Service Provider  
12 transmission and distribution contracts because he claims the increases are not  
13 known or measurable.

14 **Q. Does PSE agree with Mr. Foisy's proposal to eliminate increases to Quanta**  
15 **Service Provider transmission and distribution contracts?**

16 A. No. Not only is the increase known and measurable, PSE and Potelco/Quanta  
17 have already agreed to a unit pricing increase of [REDACTED] of the contract for 2010,  
18 which exceeds the amounts included in PSE proforma adjustment that were solely  
19 based on the 2009 contractual increase of [REDACTED]. This excess is an example of the  
20 regulatory lag that PSE experiences and will need to be absorbed by PSE as this  
21 amount is not included in PSE revenue requirements request. PSE and

1 Potelco/Quanta are finalizing minor contractual terms, which will result in a  
2 newly amended service provider contract prior to 2010, and prior to new PSE  
3 rates becoming effective. PSE's Potelco/Quanta price escalation is known and  
4 measurable, as it is negotiated and agreed to.

#### 5 IV. CONCLUSION

6 **Q. Please summarize your testimony.**

7 A. As detailed above, the Commission should reject Public Counsel's and  
8 Commission Staff's proposals to offset certain known and measurable cost  
9 increases as their arguments lack basis. Cost increases that have occurred since  
10 the test year and that are expected to occur during the rate year are not offset by  
11 efficiency gains, deflation for other cost of service components, or PSE's existing  
12 cost containment initiatives. While PSE works diligently to keep its costs low (as  
13 evidenced by PSE being among one of the lowest cost providers among investor-  
14 owned combined electric and gas utilities in the United States), PSE is  
15 experiencing additional or increasing costs to maintain and operate its utility.  
16 Unquantified claims of productivity and efficiency increases should not be used to  
17 offset known costs; nor should a speculation of future price decreases for  
18 commodities. PSE's increasing cost pressures are known and measurable and are  
19 a result of aging infrastructure, expanding customer base, need to acquire and  
20 retain talented employees, unforeseen storm events, and need to comply with  
21 increasingly stringent safety, reliability, and environmental standards.

1 Furthermore, deferring maintenance to cut costs, as asserted by Mr. Dittmer, lacks  
2 consideration for the reliability of PSE's system. Such deferral could result in  
3 compliance violations, decreased reliability and decreased customer satisfaction.  
4 Timely and adequate cost recovery is critical to PSE's ability to continue to  
5 provide safe and reliable energy delivery services to its customers and the region.  
6 Most importantly, a lack of recovery would severely impair PSE's ability to  
7 provide safe, reliable and compliant energy delivery service to its 1.8 million  
8 customers and the region. The near record-breaking "cold snap" that occurred in  
9 our region last week provides a strong reminder of the importance of, and need  
10 for, a safe and reliable energy delivery system.

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

12 A. Yes it does.