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June 9, 2016

FILED VIA E-MAIL AND ABC LMI

Mr. Steven V. King
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. SW
P. O. Box 47250
Olympia, Washington 98504-7250
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Re: *In the Matter of the Petition for Modification of Puget Sound Energy for Modification of SQI SAIDI Benchmark and Performance Evaluation Mechanics, Dockets UE-072300 & UG-072301 (Consolidated)*

Dear Mr. King:

Public Counsel files this letter to express its concerns regarding the settlement entered into by Puget Sound Energy (PSE) and Commission Staff in the above-referenced dockets, and to explain why it is not a signatory to the agreement. Under the Multi-Party Settlement Agreement, PSE and Commission Staff have agreed to the following terms:

- Use of the Institute of Electrical and Electronics Engineers (IEEE) Standard 1366 method for calculating System Average Interruption Duration Index (SAIDI).
- New SAIDI benchmark of 155.
- Establishment of a new customer guarantee that requires PSE to provide a \$50 bill credit to customers who have been without power for 24 hours or more under certain circumstances (excluding major events) and who have either requested the guarantee or reported the outage.
- Informing customers about the new 24-hour customer guarantee and how to access the guarantee.
- Retention of the customer guarantee that requires PSE to provide a \$50 bill credit to customers who have been without power for 120 hours or more and who have either requested the guarantee or reported the outage. This guarantee includes outages that occur during major events.
- Defining “catastrophic day” as any major event that exceeds 4.5 Beta.

ATTORNEY GENERAL OF WASHINGTON

To: Mr. Steven King
Date: June 9, 2016
RE: Dockets UE-072300 & UG-072301 (*Consolidated*)
Page 2 of 5

- Collection of Customers Experiencing Multiple Interruptions (CEMI)¹ data, with reporting to start in 2019.
- Informing customers of consecutive years missed on PSE's service quality report card, if applicable.
- Abandonment of potential monetary penalties for the SAIDI benchmark.

Although the Multi-Party Settlement Agreement contains certain positive terms, such as the new 24-hour customer guarantee, Public Counsel has concerns regarding other portions of the agreement that prevent it from joining. In particular, abandoning potential monetary penalties in the event PSE fails to meet the Service Quality Index (SQI) SAIDI benchmark raises substantial concerns for Public Counsel. This letter will first address the settlement terms that Public Counsel views favorably. Then, this letter will discuss the concerns we have about abandoning potential monetary penalties.

A. Favorable terms under the Multi-Party Settlement Agreement.

Public Counsel supports the movement towards using the IEEE Standard 1366 method for calculating PSE's SAIDI. The IEEE is a professional organization that has developed various electric reliability standards. These standards have been broadly adopted by the electric utility industry, and Public Counsel believes that using the IEEE Standard 1366 method to calculate SAIDI is reasonable. IEEE Standard 1366 is statistically robust and eliminates outlier data to better view a company's day-to-day level of service. Additionally, using a methodology comparable to other Washington electric utilities provides for consistency. For example, Avista has adopted usage of IEEE Standard 1366 to calculate its SAIDI.

SAIDI measures the average outage duration in minutes per customer. The Multi-Party Settlement Agreement provides for a SAIDI benchmark of 155. This benchmark, as understood by Public Counsel and as reflected in Staff's testimony supporting the settlement, is based on a calculation that included a substantial data set. Staff analyzed PSE's SAIDI, using the IEEE Standard 1366 methodology and excluding Jefferson County and catastrophic days over 15 years. Taking the most recent 10 years of data, Staff calculated PSE's average score of 134. Using the methodology used by the Commission in prior SAIDI benchmark calculations, Staff applied one standard deviation to reach 148. This methodology of applying one standard deviation accounts for variations that a company may experience year to year in its performance and is not designed to improve a company's performance. Rather, the methodology is designed to maintain a company's performance.

For settlement purposes, the setting parties agreed to a benchmark of 155. Public Counsel is satisfied that 155 is a reasonable number for the SAIDI SQI benchmark. Public Counsel recognizes that the Commission could set a benchmark that is higher or lower than 155 if this case is litigated, and 155 is within the reasonable range of outcomes. It is also consistent with

¹ This is described as customers experiencing multiple outages in the Multi-Party Settlement Agreement on page 5. The Institute of Electrical Economics Engineers (IEEE) describes CEMI as Customers Experiencing Multiple Interruptions. Public Counsel will use the IEEE description since it correlates to the acronym; however, there appears to be no difference in meaning between the IEEE and the Multi-Party Settlement Agreement descriptions of CEMI.

ATTORNEY GENERAL OF WASHINGTON

To: Mr. Steven King
Date: June 9, 2016
RE: Dockets UE-072300 & UG-072301 (*Consolidated*)
Page 3 of 5

the goals of the SQI program to ensure that customers do not experience a deterioration of service.

Likewise, Public Counsel views positively the retention of PSE's 120-hour customer guarantee and establishment of a new 24-hour customer guarantee under Tariff 131. The new 24-hour customer guarantee would apply during non-major events only. Under the new 24-hour guarantee, customers who report an outage lasting 24 hours or longer, and customers who request the 24-hour guarantee, will receive \$50. This guarantee, and the 120-hour guarantee, provides customers with some compensation for the harm and inconvenience of being without power.

Additionally, the Multi-Party Settlement Agreement provides that PSE will specifically inform its customers regarding how to obtain the new customer guarantee using typical publicity mediums. It is important that PSE customers know about the new 24-hour guarantee, as well as the existing 120-hour guarantee, and how to access the guarantees. According to PSE, its new outage management system (OMS) does not provide the visibility necessary to know which customers are experiencing outages and thus PSE needs customers to contact the Company to inform it of outages. It is important that customers be aware of the obligation to report outages both so PSE understands where its outages are and so the customers can access the new 24-hour guarantee. Public Counsel views this customer education as key to the two guarantees functioning properly.

PSE will also continue to inform customers on its annual service quality report card if it misses the SAIDI benchmark two or more years in a row. Clearly informing customers if the benchmark is missed during consecutive years is important information that contributes to customers' understanding of PSE's performance under the benchmark. Public Counsel will continue to work with PSE and other stakeholders regarding the report card language each year.

B. Public Counsel's concerns regarding the Multi-Party Settlement Agreement.

One term in particular prevented Public Counsel from joining the overall settlement: abandonment of the potential monetary penalties for the SAIDI benchmark. The question presented in this docket is setting an appropriate benchmark for SAIDI under PSE's SQI program. Abandoning the penalties provision with respect to PSE's SAIDI performance significantly changes the character of the SQI program and increases the potential for further degradation of the program.

PSE's SQI program is long-standing, dating back to the merger between Puget Sound Power and Light and Washington Natural Gas in Docket Nos. UE-951270 and UG-960195. In approving the SQI program, the Commission stated, "Distribution system reliability and maintenance is of heightened importance, both because of recent breakdowns, and because of structural changes and competition in the industry."² The SQI program was initially set to run five years and was extended for an additional five years in PSE's 2001 general rate case, Docket Nos. UE-011570 and UG-011571. In PSE's 2007 general rate case, the program was ultimately made permanent.

² *Proposal of Puget Sound Power & Light Co. to Transfer Revenues from PRAM to General Rates; Application of Puget Sound Power & Light Co. for and Order Authorizing the Merger of Wash. Energy Co. and Wash. Nat. Gas Co. with Puget Sound Power & Light Co.*, Dockets UE-951270 & UG-960195, Fourteenth Supplemental Order Accepting Stipulation at 33 (Feb. 5, 1997).

ATTORNEY GENERAL OF WASHINGTON

To: Mr. Steven King
Date: June 9, 2016
RE: Dockets UE-072300 & UG-072301 (*Consolidated*)
Page 4 of 5

During its history, the character and the goals of the SQI program have remained intact, namely that the program provides a “specific mechanism to assure customers that they will not experience deterioration in quality of their service” and to protect customers from “poorly-targeted cost cutting.”³ While all of the benchmarks are important, SQI No. 3: SAIDI is one of the most important benchmarks. Customers experience outages profoundly, and the Company’s ability to prevent and reduce outages can be directly affected by poorly-targeted cost cutting.

Public Counsel also has concerns about the argument that the new 24-hour customer guarantee replaces monetary penalties. Potential financial penalties have a different purpose and serve a different function from customer guarantees. Potential penalties assessed for failing to meet an SQI metric motivate the Company to direct necessary and appropriate funds and resources to prevent outages, improve restoration, and meet reliability benchmarks, including SAIDI. PSE’s reliability-related investments and expenses can have a large impact on electric reliability performance. Examples of such investments and expenses include vegetation management, distribution system upgrades, and deployment of new systems and technologies, such as the new OMS. Removing potential monetary penalties eliminates a strong economic incentive for PSE to make the necessary investments to meet the benchmark.

Customer guarantees, on the other hand, serve a different purpose. Those payments recognize harm to particular customers resulting from power outages and provide some compensation to the affected customers for the harm. While both are important and beneficial for customers, they are not interchangeable and it is inappropriate to replace one with the other. Additionally, penalties paid by PSE through the SQI program directly benefit customers, either being contributed to PSE’s low-income bill assistance program (Home Energy Lifeline Program) or directly to customers via a bill credit if the penalty amount exceeds \$12 per customer.⁴

Moreover, eliminating the potential penalties for the SAIDI benchmark further erodes the impact and operation of the SQI program in two important respects. The total amount at risk to PSE under the SQI program would be reduced from \$13.5 million to \$12 million on an annual basis. In addition, further potential penalties resulting from consecutive years of failure to meet the SAIDI benchmark would be eliminated by the Multi-Party Settlement Agreement. Specifically, the Mechanics Document of PSE’s SQI program provides a mechanism for doubling the penalty if PSE misses the benchmark two or more consecutive years.⁵ Under the Multi-Party Settlement Agreement, there is no added consequence for missing the SAIDI benchmark during consecutive years, although PSE will continue to inform customers of consecutive years missed via its annual report card. The SQI program recognizes that missing benchmarks during consecutive years should carry additional consequences, and that critical feature is lost under the Multi-Party Settlement Agreement.

³ *Proposal of Puget Sound Power & Light Co. to Transfer Revenues from PRAM to General Rates; Application of Puget Sound Power & Light Co. for and Order Authorizing the Merger of Wash. Energy Co. and Wash. Nat. Gas Co. with Puget Sound Power & Light Co.*, Dockets UE-951270 & UG-960195, Fourteenth Supplemental Order Accepting Stipulation at 32-33; Stipulation at 11:11-15 (Feb. 5, 1997).

⁴ Updated Appendix 2 to Exhibit J of Dockets UE-011570 & UG-011571 (*Consolidated*), filed in Compliance with Order 25 of Dockets UE-072300 & UG-072301 (*Consolidated*), PSE’s Service Quality Program, Service Quality Program Mechanics at 17 (Jan. 8, 2015) (“Mechanics Document”). A copy of the Mechanics Document is attached hereto as Attachment A for ease of reference.

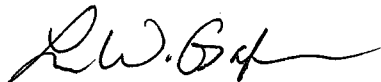
⁵ *Id.* at 5.

ATTORNEY GENERAL OF WASHINGTON

To: Mr. Steven King
Date: June 9, 2016
RE: Dockets UE-072300 & UG-072301 (*Consolidated*)
Page 5 of 5

As a result of the concerns discussed above, Public Counsel is not able to join or support the Multi-Party Settlement Agreement between PSE and Commission Staff. Public Counsel does not intend to file testimony, offer witnesses, or make any additional filings beyond this letter; however, Public Counsel will be present at any hearing scheduled to consider the proposed settlement terms.

Sincerely,



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