

EXHIBIT NO. JOINT-2T
DOCKET NO. UE-070725
WITNESSES: ERIC E. ENGLERT
SANDRA M. SIEG
DANIELLE O. DIXON
ANN E. GRAVATT
CHARLES M. EBERDT

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Amended Petition of

PUGET SOUND ENERGY, INC.

**For an Order Authorizing the Use of the
Proceeds From the Sale of Renewable Energy
Credits and Carbon Financial Instruments,**

Docket No. UE-070725

**PREFILED REBUTTAL JOINT TESTIMONY (NONCONFIDENTIAL) OF
ERIC E. ENGLERT, SANDRA M. SIEG, DANIELLE O. DIXON,
ANN E. GRAVATT, AND CHARLES M. EBERDT**

FEBRUARY 18, 2010

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1 **PREFILED REBUTTAL JOINT TESTIMONY (NONCONFIDENTIAL)**

2 **I. INTRODUCTION**

3 **Q. Are you the same Joint Parties who provided in this proceeding prefiled**
4 **direct testimony, Exhibit No. JOINT-1T, on October 7, 2009?**

5 A. Yes.

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

7 A. In this proceeding's prefiled direct Joint Testimony, Exhibit No. JOINT-1T, the
8 Joint Parties supported Puget Sound Energy Inc.'s ("PSE") proposal to use a
9 portion of proceeds from its sale of Renewable Energy Credits ("REC") and
10 Carbon Financial Instruments ("CFI") to provide funding which could be used to
11 pay for low income (1) energy efficiency measures and energy-related repairs, and
12 (2) renewable energy systems. This joint testimony responds to testimony
13 opposing that proposal or questioning aspects of its implementation. Specifically,
14 this joint testimony responds to the following direct testimony:

- 15 1. Michael P. Parvinen, witness for the Staff of the Washington Utilities and
16 Transportation Commission ("Staff"),
- 17 2. Scott Norwood, witness for the Public Counsel section of the Washington
18 State Attorney General's Office ("Public Counsel"),
- 19 3. Kevin C. Higgins, witness for The Kroger Co. ("Kroger") on behalf of its
20 Fred Meyer Stores and Quality Food Centers division, and
- 21 4. Donald W. Schoenbeck, witness for Industrial Customers of Northwest
22 Utilities ("ICNU").

1 **Q. Please summarize the proposals in the direct response testimonies.**

2 A. Public Counsel neither supports nor opposes the proposal to use a portion of the
3 REC proceeds to fund low income conservation and renewable programs, but
4 recommends that any proceeds allocated to low income customers be from
5 proceeds collected after November 2009.

6 Kroger testifies that the Commission has discretion to credit REC sales to special
7 purposes such as the low income proposal but recommends that the timing of the
8 credits should give more weight to rate relief to customers as a whole.

9 ICNU does not support using a portion of the REC funds for low income
10 programs, but advocates that if such funding occurs, any monies earmarked for
11 increasing low income programs should come from the net benefit assigned to the
12 residential class, based on a theory that the direct beneficiaries of these program
13 commitments are the residential class.

14 Mr. Parvinen, on behalf of Commission Staff, takes the position that the use of
15 REC proceeds to fund low income conservation and renewables programs is not
16 appropriate because such funds should be returned equally to customers, and
17 because he believes that these programs are not cost effective based on the total
18 resource cost test.

1 **A. PSE's Proposed Low Income Conservation Programs are Cost**
2 **Effective**

3 **Q. Please describe in more detail Commission Staff's opposition to PSE's low**
4 **income proposal.**

5 A. Mr. Parvinen claims that the low income proposal supported by the Joint Parties
6 disproportionately benefits low income customers, who "are not the only
7 customers who paid for the assets that generated these RECs and CFIs".¹ Mr.
8 Parvinen also claims that PSE's low income programs fail to meet the
9 Commission's standard for cost-effectiveness.

10 **Q. Do you agree with Mr. Parvinen's claim that the proposed low income**
11 **programs fail to meet the Commission's standard for cost effectiveness?**

12 A. No. Mr. Parvinen provides no support or explanation for his claim that the low
13 income programs do not meet the Commission's standard for cost effectiveness.
14 Mr. Parvinen does not even state the Commission's standard, he merely provides a
15 footnote to the Commission's First Supplemental Order in Puget Sound Power &
16 Light's 1992 general rate case, Docket No. UE-920630, which applied the Total
17 Resource Cost test to PSE's then-proposed conservation plan. However, Mr.

¹ Parvinen, Exhibit No. MPP-1T, page 11, lines 14-15.

1 Parvinen ignores the fact that the Commission has since approved PSE's Electric
2 Tariff G, Schedule 83, which applies a TRC of 0.667 for low income programs.²

3 In Exhibit No. JOINT-3, Commission Staff's Revised Response to PSE Data
4 Request No. 1, it becomes apparent that Mr. Parvinen's conclusion that PSE's low
5 income proposal does not meet the Commission's cost effectiveness standard is
6 based on faulty assumptions. Mr. Parvinen suggests that PSE's Response to
7 WUTC Staff Data Request No. 013, which has been designated as Exhibit No.
8 JOINT-4, "appears to only include \$9.1 million in cost, rather than the total
9 expected cost of \$16 million." The \$9.1 million total represents PSE's existing
10 low income weatherization project's projected two-year tariff budget of
11 \$4,783,380, plus a two-year allocation of REC and CFI proceeds of \$4.4 million
12 (\$16 million divided by 7 years equals an average of \$2.2 million per year, times 2
13 years.). Thus the two-year total program costs with REC and CFI proceeds are
14 \$4,783,380 plus \$4,400,000, to equal \$9,183,380. Total projected energy savings
15 (savings from base program plus additional savings from proceeds) equals
16 3,843,398 kWh for a unit cost/TRC ratio of 0.94.

17 **Q. What are the TRC ratios for the Joint Parties' proposed low income**
18 **programs?**

19 A. As illustrated above and in Exhibit No. JOINT-4, the proposed programs have a
20 projected TRC ratio of 0.94, based on the lowest projected savings estimate. This

² See PSE's Electric Tariff G, Schedule 83, First Revision of Sheet 83-f, paragraph 9, Special Conditions.

1 exceeds the Commission-approved standard of 0.667 and does not even take into
2 account non-quantifiable benefits that are realized by all customers and recognized
3 by the Commission as appropriate considerations.

4 **Q. Why should the Commission consider non-quantifiable benefits?**

5 A. Benefits that are difficult or impossible to quantify are no less valid than those that
6 are easily quantifiable. Moreover, the Commission has specifically recognized
7 non-quantifiable benefits. Conservation Schedule 83, section 4, paragraph p,
8 specifically defines non-quantifiable benefits (or costs) as:

9 Benefits (or costs) of undertaking energy efficiency improvements, as
10 determined by society and the utility. Benefits (or costs) may include,
11 but are not limited to: legislative or regulatory mandates, support for
12 region Market Transformation programs, low income health and
13 safety, low income energy efficiency or experimental or pilot
14 programs. The Company may use these Non-quantifiable Benefits (or
15 Costs) to demonstrate cost-effectiveness based on the Total Resource
16 Cost Test. (Emphasis added)

17 Mr. Parvinen fails to recognize the appropriate application of non-quantifiable
18 benefits to demonstrate cost effectiveness based on the Total Resource Cost Test.

19 **Q. Did Commission Staff oppose Schedule 83?**

20 A. No. The language referenced above and the TRC ratio of 0.667 were proposed as
21 revisions to Schedule 83 in Docket No. UE-072235 and were allowed to go into
22 effect via the Commission's "no action" agenda item at the December 27, 2007
23 open meeting.

1 **Q. Has Commission Staff opposed other low income proposals?**

2 A. The Joint Parties are not aware of any low income proposals opposed by
3 Commission Staff. Commission Staff has either affirmatively supported PSE's
4 low income proposals or recommended that the Commission take no action,
5 allowing low income programs to go into effect. In Docket Nos. UE-010436 and
6 UG-010437, addressing Avista's energy efficiency rider and low-income
7 assistance program, Commission Staff's memo recommends that the Commission
8 allow the program to become effective as filed. Specifically regarding the low-
9 income assistance program in that proceeding, Commission Staff stated that it
10 "supports the purpose for which the surcharge is collected." Commission Staff
11 further stated:

12 This rider is designed to collect revenue that will be used to assist low-
13 income customers in a way that is just, fair, reasonable and sufficient.
14 Program effectiveness should be evaluated, in part, based on how
15 broadly funds are distributed among eligible ratepayers: low-income
16 rate assistance programs typically benefit only 25% of eligible
17 customers. Avista and CAAs should explore ways that will enhance
18 program effectiveness and coverage.³

19 As recently as December 23, 2009, in PSE's Docket No. UE-091859, Commission
20 Staff recommended that the Commission allow PSE's Schedule 201 conservation
21 program to go into effect on January 1, 2010 by operation of a standard tariff
22 schedule. This schedule includes low income energy efficiency programs.

3 Commission Staff's Open Meeting Memo, Docket Nos. UE-010436 and UG-010437 (April 25, 2001) (emphasis added).

1 **Q. What is an example of Commission Staff affirmatively supporting renewable**
2 **energy programs?**

3 A. Not only Commission Staff, but Public Counsel and ICNU were all signatories to
4 the “Settlement Terms for Conservation” in Docket No. UE-011570. PSE, NW
5 Energy Coalition, The Energy Project and the Microsoft Corporation were also
6 signatories to that settlement stipulation. The terms commemorate that all signed
7 parties understand, agree and support that: “PSE shall initiate work with the
8 Advisory Committee and renewable energy stakeholders to design, establish and
9 begin implementation of at least one renewable energy program that supports the
10 local installation of renewable energy resources.” The low income renewable
11 energy programs proposed in this proceeding are exactly the type of small-scale,
12 local renewable resources installations contemplated in the settlement stipulation.

13 **Q. Mr. Parvinen points to PSE’s current conservation program as a cost effective**
14 **program. Why is the TRC ratio higher in PSE’s current program than it is in**
15 **the Joint Parties' proposed program?**

16 A. Mr. Parvinen is correct that PSE’s current conservation program is a cost effective
17 program, but he fails to recognize that the conservation proposed in this
18 proceeding cannot be realized unless the associated repairs are funded. The
19 funding of the proposed repairs is a prerequisite to the additional conservation.
20 The Joint Parties' proposal recommends that PSE fund both the repairs and
21 conservation, because one is tied to the other, thus lowering the TRC ratio.

1 **Q. How do the Joint Parties respond to Mr. Parvinen's suggestion that PSE's**
2 **current energy efficiency program could incorporate repairs to a customer's**
3 **living unit?⁴**

4 A. Mr. Parvinen is incorrect. PSE's current tariff does not allow for the funding of
5 repair measures, no matter how cost effective the program is. The poor condition
6 of the low-income housing stock that PSE serves has been a long-standing barrier
7 to low-income energy efficiency, and the majority of the homes assessed by the
8 community action agencies require some sort of repair before conservation
9 measures can be taken. That is the exact problem the Joint Parties' low income
10 proposal is meant to correct. Furthermore, the need is actually increasing. In prior
11 years agencies have had some access to funds that could be used for repairs either
12 through the Energy Matchmaker program or from federal sources, such as the
13 Department of Housing and Urban Development. Unfortunately, the availability
14 of repair funding has decreased while at the same time being in greater demand
15 statewide. So agencies participating in PSE's programs do not have access to as
16 much repair funding as they have had in the past.

17 **Q. Can you elaborate on the nature of the repairs that would be funded under**
18 **the Joint Parties' proposal?**

19 Yes. The allocated proceeds from REC sales would fund repairs that are necessary
20 before weatherization measures can be installed, and would allow for additional

⁴ See Parvinen, Exhibit No. MPP-1T at 12, lines 18-21.

1 conservation benefits to be realized in homes that otherwise could not be
2 weatherized due to unsafe conditions or other housing infirmities. If funding is
3 approved, application of funds is estimated to result in the following repairs:

- 4 • Mechanical ventilation (20%)
- 5 • Roof repair (20%)
- 6 • Repair of under floor leaks (20%)
- 7 • Wiring Repair (including knob and tube replacement (20%)
- 8 • Furnace repair and replacement (6%)
- 9 • Water tank replacements and repair (4%)
- 10 • Vapor barriers (5%)
- 11 • Other (5%)⁵

12 Historically, program funding for community action agencies in PSE's service
13 territory has been inadequate. Estimates show that 60% of the additional repair
14 funding would be applied to roof repairs, floor repairs, and electrical work. These
15 categories of repair are typically more expensive and therefore seldom performed
16 because they would deplete the available repair dollars more rapidly. However,
17 they are still worth the investment because of the size of the savings they will
18 trigger. See Exhibit No. JOINT-5, PSE's Response to Public Counsel Data
19 Request No. 003, for a summary of estimated application of funding.

20 **Q. What additional energy efficiency measures could be undertaken if these**
21 **repairs are funded?**

22 A. Additional funding for repairs would allow for an increased installation rate of the
23 following measures in the PSE Residential Low-Income Program:

- Ceiling Insulation,
- Floor Insulation,
- Duct Insulation,
- Structure Sealing (Air Sealing),
- Wall Insulation,
- Window Replacement.

Q. What additional conservation savings are expected as a result of the increased installation rate of these measures?

A. Estimated energy savings benefits for these measures are 425,299 kilowatt hours (“KWh”) to 827,269 kWh per year. *See* Exhibit No. JOINT-6, PSE's Response to Public Counsel Data Request No. 004.

Q. Are there other benefits gained through these repairs?

A. Yes. In addition to increased energy efficiency benefits described above, the following health and safety benefits are achieved when the above repair measures are completed:

- Mold and mildew abatement,
- Carbon monoxide safety,
- Structure preservation,
- Electrical safety.

Repair funds also create some administrative efficiency for the serving agency because the agency does not experience the cost of qualifying a client or assessing a unit that cannot be fully weatherized.

⁵ This includes repairs such as combustion safety testing, carbon monoxide detector, in-home education, space heater replacement, door sweeps/weather stripping, smoke alarms, and some energy efficiency measures such as insulation.

1 Further, when installation of a major measure such as ceiling insulation and
2 sealing cannot be performed because repair funds are not available, agencies are
3 left with the choice of delaying installation of any measures until some
4 indeterminate future date when repair funds are available, or stranding that
5 particular measure. In the latter case there is no guarantee the stranded measure
6 will be realized at a future date because the administrative and implementation
7 costs (travel, set up, etc.) may be too great to justify returning for a single measure.

8 **B. Commission Precedent Supports Low Income Conservation**

9 **Q. You have testified that Commission Staff has supported low income programs**
10 **in the past. Has the Commission also supported such programs?**

11 A. Yes. The Commission has strongly supported low income conservation. For
12 many years the Commission has recognized the need and appropriateness of
13 funding low income programs. The Commission has approved similar programs as
14 those proposed in this proceeding. In addressing Avista's low income
15 conservation program, the Commission admonished the utility, stating,

16 The Company's low-income conservation achievement during the
17 decoupling pilot is particularly disappointing. As the program's
18 impact on low-income customers remains a key issue, we direct the
19 Company, working in collaboration with the parties, to explore new
20 approaches to promote low-income conservation, to identify barriers
21 to its development, and to address the issues raised by The Energy
22 Project.⁶ (Emphasis added)

6 Docket Nos. UE-090134, UG-090135, and UG-060518 (consolidated), Order 10, ¶ 306 (Dec. 22, 2009).

1 The Joint Parties are now supporting a new approach (at least new to Washington)
2 to enhancing funding for low-income conservation.

3 **C. PSE's Low Income Conservation Proposal Benefits All Customers**

4 **Q. How do the Joint Parties respond to Mr. Parvinen's statement that "any**
5 **REC/CFI sales proceeds available for customers should be returned equally**
6 **to the customers paying for the assets generating the benefit."**

7 A. What Mr. Parvinen fails to recognize is by using the REC and CFI proceeds for the
8 low income residential energy efficiency and renewables programs, all customers
9 would experience both energy and non energy-related benefits. By leveraging
10 additional energy efficiency, which would otherwise not be performed, the funding
11 would provide to non low income customers all the same benefits that accrue to
12 PSE's standard energy efficiency –programs—lower demand for energy, more
13 efficient use of the distribution system, and reduction in peak capacity demand.
14 By providing energy efficiency services, including behavior-related energy
15 education, for a low-income house that would be passed over, or by allowing
16 installation of a measure that would not be installed with the mix of other
17 measures, these proceeds capture what would otherwise be lost opportunities.

18 Because these efficiencies are being gained in low-income housing, there is further
19 benefit to other customers because the implemented efficiency lowers the
20 customer's bills, thereby lowering the cost of non-payment if it does occur,

1 increasing the household's ability to pay the bill or more of the bill and reducing
2 its dependence on bill payment assistance. This in turn allows other payment-
3 troubled households access to such services. In the long run, this also reduces the
4 carrying cost and write-off costs of bad debt.

5 Non-energy benefits are difficult to quantify, but would include the preservation of
6 affordable housing stock and economic benefits from local job creation for
7 electrical, plumbing, and construction trades in PSE's service territory. Access to
8 affordable housing also helps stabilize households by avoiding the need to move
9 frequently.

10 **Q. How do the Joint Parties respond to Mr. Parvinen's argument that awarding**
11 **REC and CFI proceeds to low income customers is unfair?**

12 A. This argument is the same as ICNU's,⁷ and such a claim is ironic. The purpose
13 behind the low income proposal is to treat PSE customers fairly and equitably.
14 The low income sector of PSE's customer population does not have access to
15 energy efficiency without subsidization. Energy efficiency is not available to
16 many eligible customers, even under PSE's existing tariff program, due to
17 inadequate funding for repairs required prior to installation of energy efficiency
18 improvements. Repair funding would allow for these necessary repairs and related
19 energy efficiency to be installed when it otherwise would not, providing low
20 income customers equal access to energy efficiency.

1 Mr. Parvinen fails to recognize or at least acknowledge that all utility funded
2 conservation programs to some extent fail to return benefits equally to all those
3 paying for the program costs. While all customers benefit from the reduction in
4 need for supply resulting from the energy efficiency programs, those customers
5 who participate in a program directly clearly see greater benefits, often much
6 greater benefits, than those who do not. At times a program may face a unique
7 barrier and require additional funding or a different approach to overcome that
8 barrier, as was the case with front loading clothes washers or compact fluorescent
9 lighting. The point is that the application of funds may not be precisely equal, but
10 at the same time may not be unduly discriminatory in overcoming a unique barrier
11 to participation or capturing greater savings.

12 **Q: What is your response to Mr. Parvinen's (and others') testimony that funding**
13 **the proposed low income programs constitutes an improper subsidy of low**
14 **income conservation by other customer classes?**

15 A: The Joint Parties disagree with Commission Staff's statement that this proposal
16 constitutes an improper subsidy of low income conservation. First, it is important
17 to recognize that although investments in conservation benefit all customers by
18 lowering demand and thus reducing the need to buy higher cost electricity at the
19 margin, the benefits from the conservation program do not return to rate classes in
20 the same proportion that those classes fund energy efficiency. Second, historically

7 See Schoenbeck, Exhibit No. DWS-1HCT, page 10, lines 21-22.

1 the allocation of energy efficiency funds to commercial and industrial projects has
2 for many years exceeded what would be the proportional allocation were it just
3 based on revenue collected from those classes. In designing its energy efficiency
4 programs, PSE offers a mix of tariff-based programs that ensure it is serving each
5 customer sector including low-income.⁸ But the budget and savings targets within
6 each sector are generally designed to maximize the greatest amount of savings at
7 the least overall cost to all customers.

8 **Q. How do the Joint Parties respond to Kroger's proposal regarding the low**
9 **income programs?**

10 A. Kroger, through witness Kevin Higgins, appears to recognize the Commission's
11 support for low income conservation and does not oppose some form of low
12 income assistance. Kroger proposes a condition on the low income programs
13 similar to that proposed by Public Counsel. While Public Counsel will not support
14 funding low income conservation with any REC or CFI proceeds that have already
15 accumulated, Kroger recommends limiting such disbursement to 10% of REC
16 sales annual revenue – including revenues from past sales. The Joint Parties are
17 not opposed to Kroger's approach to disbursing funds.

8 Docket Nos. UE-011570 and UG-011571, Exh. F to Settlement Stipulation, Settlement Terms for Conservation. ¶ 24 (June 20, 2002).

1 **Q. How do the Joint Parties respond to ICNU's assertion that as direct**
2 **beneficiaries, any monies earmarked for low income program funding should**
3 **come from the net benefit assigned to the residential class?**⁹

4 A. ICNU fails to recognize that conservation programs, both for low-income
5 customers and non-low-income customers, provide benefits for all classes of
6 customers. ICNU also fails to recognize that its member companies such as
7 Boeing, Microsoft, Weyerhaeuser and Intel may also have employees and retired
8 employees who benefit from low income and conservation programs offered
9 within the PSE service territory. The Commission has most recently spoken to this
10 issue in Avista's decoupling docket, UG-060518, Order 10, at paragraph 303,

11 By reducing the Company's natural gas load, including its peak
12 requirements, Avista's conservation program benefits all customers...
13 the program's lost margin is only collected from Schedule 101
14 customers. Following the principle of costs following benefit
15 discussed above, we expect parties to address whether the program
16 should recover DSM-related lost margin from all rate schedules in
17 Avista's next general rate case. (Emphasis added)

18 Further, as mentioned earlier, ICNU fails to recognize the Commission's repeated
19 approval of funding mechanisms for low-income programs that spread the cost
20 across all ratepayers.

⁹ See Schoenbeck, Exhibit No. DWS-1HCT, page 11, lines 7-10.

1 **Q. How do the Joint Parties respond to Public Counsel witness Mr. Norwood's**
2 **suggestion that PSE customers are paying too much for the wind projects that**
3 **generate the RECs at issue in this docket?**

4 A. The Joint Parties disagree with Mr. Norwood's suggestion. To support his point
5 that customers should receive 100% of the REC revenues, Mr. Norwood asserts¹⁰
6 that PSE's three wind projects are significantly more expensive than the
7 "forecasted average price of energy" over the same time period. This is not a
8 relevant or accurate comparison. In fact, PSE's wind projects have been shown to
9 be among the most cost-effective resources available to the Company. The only
10 useful comparison of resource cost is to other new resources that PSE could have
11 invested in at the time it selected the wind projects, an analysis conducted in the
12 Company's biannual Integrated Resource Plans and confirmed by its subsequent
13 RFP process. At the time that PSE invested in these projects, the Company was
14 resource-deficient and projected a significant need for new resources to meet load
15 growth and replace expiring contracts. The cost of each of these wind projects was
16 shown to be the least cost and least risk resource, compared to other new
17 resources.¹¹

18 Mr. Norwood's comparison can be taken to an absurd point. At any given point
19 the market price may be cheaper than resources in a utility's portfolio. A prudent
20 utility has a balanced portfolio of owned and contracted resources as well as

10 See Norwood, Exhibit No. SN-1HCT, page 13.

1 market purchases to insulate against the volatility of the market. It is difficult to
2 imagine Public Counsel supporting heavy reliance on market purchases as a way to
3 protect ratepayers.

4 Further, cost is not the only relevant factor in the decision to invest in a resource.
5 Price stability, hedge against fossil fuel prices, anticipation of future policy such as
6 renewable portfolio standards (which came to pass in Washington via I-937
7 subsequent to PSE's decision to invest in some of these wind resources) and
8 climate regulation are all factors that should be considered in a comparison of
9 resources. PSE rightly engaged in that analysis in its decision to acquire the wind
10 projects. Thus, customers already are benefiting from PSE's early investment in
11 these wind projects as opposed to the implication by Mr. Norwood that they are
12 paying too much.

13 II. CONCLUSION

14 **Q. Does this conclude your testimony?**

15 **A.** Yes, it does.

11 See Garratt, Exhibit Nos. 158, 159 and 160 in WUTC Docket No. UE-062300 (Feb. 15, 2006).