EXHIBIT NO. ___(SML-1T)
DOCKET NO. UE-11___/UG-11___
2011 PSE GENERAL RATE CASE
WITNESS: SUSAN MCLAIN

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-11____** **Docket No. UG-11____**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF SUSAN MCLAIN ON BEHALF OF PUGET SOUND ENERGY, INC.

JUNE 13, 2011

PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF SUSAN MCLAIN

CONTENTS

PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF SUSAN MCLAIN

I. INTRODUCTION AND OVERVIEW

Q. Please state your name and business address.

A. My name is Susan ("Sue") McLain. My business address is 10885 NE 4th Street, P.O. Box 97034, Bellevue WA 98009-9734.

Q. By whom are you employed and in what capacity?

A. I am employed by Puget Sound Energy, Inc. ("PSE" or the "Company") as Senior Vice President Delivery Operations.

Q. What are your duties as Senior Vice President Delivery Operations?

A. I have overall responsibility for activities associated with the routine construction, operation and maintenance of PSE's natural gas and electric delivery systems. These duties include: electric and gas first response to address customer issues such as power outages and reports of gas odors; new customer construction; construction, maintenance and operation of electric and gas transmission and distribution infrastructure and substations; system controls and protection; vegetation management; leak surveying; contractor management; emergency and

storm response; quality control; gas and electric control centers and dispatch; bulk electric transmission contracts, sales and interconnections; and customer care efforts – including operations in our customer access centers, billing and metering areas.

Q. Have you prepared an exhibit describing your education, relevant employment experience and other professional qualifications?

A. Yes, I have. It is Exhibit No. ___(SML-2).

Q. As the officer at PSE responsible for the operation of the electric and natural gas system and the impact of that operation on PSE's customers, what keeps you awake at night?

A. I have three areas of concern all of which comprise an overarching theme of maintaining reliable electric and natural gas service:

1. Aging Infrastructure: For over 130 years, PSE has been providing safe and reliable natural gas and electric service to more than 100 communities in Western Washington and parts of Central Washington. Given this longevity, replacements and remediation to PSE's aging delivery system are constantly needed to fulfill PSE's obligation to serve customers safely and reliably. Additionally, PSE's information technology systems supporting field

operations, customer services and customer billing are out-dated and in need of upgrade.

2. Trees: PSE currently has over 1.1 million electric customers located in 9 counties, across a geographically diverse service area that spans 4,000 square miles. Much of PSE's electric overhead distribution and transmission system (over 13,000 miles) is in heavily treed right-of-way or adjacent to heavily treed private property. Spurred by a moderate, rainy climate, these trees grow quickly and to great heights but have shallow root structure, making them particularly vulnerable to damage from strong winds that are also typical in the region.

3. Compliance Costs and Changing Local Construction Standards: In addition to the physical realities of our aging and diverse system, the list of regulatory compliance requirements applicable to PSE continues to grow and local construction standards are becoming more stringent and hence more costly.

All three of these areas of concern are driving increased needs for capital and operations and maintenance ("O&M") investment during a time when our customers are suffering through the worst economic conditions in seventy years. In short, I don't sleep much.

Q. What areas will you address in your testimony?

A. I describe the major issues and challenges facing the day-to-day operation of PSE's natural gas and electric delivery systems and customer care operation. Specifically, my testimony addresses the following issues:

- The cost control measures the Company has taken with regard to billing and uncollectible accounts, infrastructure project reprioritization and in outsourcing natural gas construction and maintenance work;
- PSE's efforts to maintain or improve reliability, customer service and prompt emergency response;
- The cost impact of maintaining a large and aging electric and gas delivery system;
- The cost impact of significant and increasing regulatory compliance requirements;
- The cost impact of increasingly more rigorous and costly municipal, county and state jurisdictional construction requirements;
- The cost impact of the downturn in the economy;
- PSE's request to eliminate Service Quality Index: Disconnection Ratio (SQI-9).

II. COST CONTROL MEASURES

Q. How do PSE's O&M costs compare to the O&M costs of other utilities?

A. When looking at natural gas and electric O&M costs per customer, PSE remains one of the lower cost providers among investor-owned utilities in the United States, as is reflected in Exhibit No. ___(SML-3).

Q. Please describe the actions PSE is taking to control costs.

A. Managers and employees engage in process improvement efforts, participate in industry benchmarking and best practice studies, and prioritize the use of capital investment dollars. In addition, the Company has created a Performance Excellence group that works with managers to drive process improvements. Their work has increased management and employee focus on implementation of the process changes and new technologies which result in cost reductions or improved service levels at the same cost. These efforts have resulted in materials purchase savings; overtime reductions while maintaining a high level of performance (as reflected in both gas and electric emergency response times); the addition of fuel efficient vehicles to our fleet; outsourcing certain credit and collection activities; and reprioritization of infrastructure projects**.**

A. Efficiencies in Billing and Uncollectible Accounts

Q. Please describe what PSE has done to control uncollectible energy accounts.

A. In 2010, many of the credit and collections functions (e.g. bankruptcies) were outsourced to ER Solutions, a third-party collections service provider in Renton. This outsourcing reduced internal costs for credit and collections activities by $140,000 in 2010 and provided workforce scheduling flexibility in assigning active credit work. In addition, ER Solutions leverages technology it already has in place to improve PSE collections and reduce PSE accounts receivable without

additional technology costs to PSE. These process improvements allowed PSE to reduce the dollar amount and aging of the accounts receivables being worked from $1,000 and 90 days or greater outstanding, to $400 and 60 days or greater outstanding.

Q. Are there other changes that PSE has adopted to reduce costs?

A. Yes. PSE continues to leverage technology to improve Customer Care processes and procedures. For example, PSE's Corporate Billing Department utilizes a computer software tool, which has the ability to compare customer usage patterns by neighborhood, rate class and energy type. When discrepancies are discovered, field employees are dispatched to ensure that meters and associated equipment are functioning properly or to make appropriate repairs. This allows PSE to address potential billing exceptions and metering equipment malfunctions earlier than the process had allowed previously.

In addition, PSE provides its customers with electronic paperless billing options, and PSE is currently in the first quartile compared to industry peers with 15 percent customer participation rate in paperless billing. Paperless billings typically result in lower costs than traditional mailed paper bills. For example, a traditional paper bill costs approximately 42 cents to print and mail (based on 2011 postage costs) while a paperless bill costs approximately 21 cents to bill.

During 2010, PSE's estimated savings from paperless billing was approximately $340,000.

B. Cost Control from Infrastructure Project Reprioritization

Q. Has the Company made changes to capital construction projects due to the recession?

A. Yes. In June 2010 the Company reduced its capital spending from the budgeted amounts by approximately $23 million in natural gas infrastructure projects which were tied to expected growth in demand. The Company also reduced capital spending by approximately $56 million in electric infrastructure projects, which were tied to expected growth in demand. The Company eliminated a number of positions related to these projects, which resulted in the layoff of a number of employees in the middle of the year.

Q. Did these layoffs reduce test year expenses?

A. Yes. The impact on capital and O&M expenditures during 2010 was approximately $1.1 million and $428,000, respectively. The layoffs reflect PSE's decision to defer certain planned natural gas and electric capital projects due to the downturn in the economy and the slow pace of economic recovery. This means near-term natural gas and electric capital spending was lower than previously predicted.

C. Cost Control from Outsourcing Construction Work

Q. Please describe PSE's historical use of construction contractors.

A. Before 1990, PSE used outside contractors to complete major capital construction projects, provide specialized services, and augment the internal construction and maintenance workforce. For example, PSE had for many decades used contractors for both natural gas and electric system construction, locating underground facilities, gas leak inspections and vegetation management. During the 1990s, approximately 45 percent of PSE's combined natural gas/electric delivery infrastructure construction was performed by outside contractors. In the early 2000s, PSE increased the scope of outsourcing construction and related services by awarding contracts covering new customer construction, second response, routine system operation and maintenance, and routine system construction (with design, permitting and project management services) to two contractors, referred to as service providers.

Q. Have PSE's customers benefited by the decision to outsource these duties?

A. Yes. PSE measures the value of the service provider model on both a qualitative and quantitative basis. These factors include: the size and capabilities of the service providers selected, the resulting strategic alignment and workflow between the PSE and service provider workforces, the quality of customer service and the operational efficiency and cost savings achieved by entering into service

provider agreements, and periodic market comparisons through project bidding and/or full service provider work scope Request for Proposal ("RFP").

PSE has selected large contractors that have national presence for the majority of its outsourced work. Because of their relative size, these entities are able to provide benefits that a standalone utility could not provide with its own internal workforce. These benefits include:

- A regional pool of trained and specialized workers that can be easily transported into PSE's system territory;
- A larger, national pool of trained and specialized workers that can be transported to Washington for an emergency event or a unique construction project that is limited to the Washington region;
- A significant inventory of specialized equipment (e.g., tracked vehicles, snow cats, etc.) that would likely sit idle for periods of time, yet would be required to be purchased and maintained by the Company to provide availability for unique situations; and
- A division of work scope that provides for "optionality" depending upon operating conditions. For example, during normal operating conditions, PSE is able to focus on emergency or first response service calls leaving its service provider to focus on second response calls, system construction, new customer construction and related services.

Q. Has PSE taken actions to evaluate the costs associated with its construction contractors?

A. Yes. One example is that in 2010 PSE initiated a review and request for proposals on its routine natural gas construction and maintenance work performed

by one of the Company's major service provider contractors, representing approximately $75 to $85 million per year of construction effort.

Q. Please provide an update on the RFP of the natural gas service provider scope of work that was initiated in 2010.

A. PSE used a strategic sourcing competitive RFP bid process to examine the opportunity for improvement in its natural gas service provider arrangement. This process was completed in early 2011 and resulted in the selection of a new service provider. The sourcing process included RFP development with assistance from key internal PSE stakeholders, RFP release to bidders, initial responses and screening to determine finalists, internal PSE stakeholder discussions with finalist bidders, reference checking with other utilities using these contractors, finalist screening negotiations, and final selection of a new service provider.

Q. What benefits does the Company expect as a result of this change?

A. Based upon analysis conducted through the RFP process, the Company and customers are expected to pay approximately $13 million less in capital and O&M costs than if the services were performed in-house, and approximately $6.7 million less in capital and O&M costs than if the prior arrangement had been maintained. The majority of these savings are capital savings. A pro forma adjustment has been included in both the gas and electric revenue deficiency

calculation to reflect these savings as described in the testimony of Mr. John Story in Exhibit No. ___(JHS-1T).

Q. Does the Company plan to issue an RFP on the electric system service provider work scope?

A. Yes, but not in the immediate future. The schedule of such an RFP will be considered after the natural gas service provider transition is completed. The new gas service provider and the electric service provider are interested in engaging in joint operational efficiency efforts, which the Company will be considering and implementing procedural changes where justified.

Additionally, the Company is in the process of installing significant new technologies (an Outage Management System, Geospatial Information System and Customer Information System) and the operational resources involved in a significant service provider RFP process will be involved in these other efforts.

III. PROVIDING SAFE AND RELIABLE NATURAL GAS AND ELECTRIC DELIVERY SERVICE

A. PSE's Natural Gas and Electric Delivery Systems

Q. Please describe PSE's natural gas and electric delivery systems.

A. PSE delivers more than 302 million cubic feet ("MMcf") of natural gas to over 750,000 customers daily through a pipeline network consisting of 12,000 miles of mains and 13,000 miles of gas service lines. These natural gas mains and service lines consist of several vintages of steel and plastic pipe in varying physical condition. The system is designed and built for extreme cold weather conditions –gas throughput set an all time new peak on November 24, 2010 that exceeded 820 MMcf for a 24-hour period. In addition, on December 9, 2009, the Company's all time peak morning four-hour sendout of more than 166 MMcf occurred.

PSE delivers on average approximately 62,000 megawatt-hours of electricity per day to over 1.1 million customers through approximately 20,500 miles of distribution lines and approximately 2,600 miles of transmission lines. The electric delivery system is also designed and built for this area's extreme weather conditions and is able to support maximum expected peak loads, as experienced in 2009 when area loads reached an all time high of approximately 5,160

megawatts. Similar to the gas system, the electric system is comprised of equipment of varying ages and physical condition.

Q. PSE recently experienced record peak usage on both the electric and gas systems. What is driving the increases in peak usage?

A. The increases in peak usage are driven primarily by:

- Cold weather;
- New customer additions; and
- New consumer products, such as household electronics, heat pumps and on-demand gas hot water heaters which add to the peak when used during peak periods. For example, on-demand natural gas hot water heaters typically require installation of larger and more expensive services to the home in order for the required volume of gas to be delivered. On an annual basis, an on-demand hot water heater uses less natural gas than a conventional water heater. However, when it is in operation, an on-demand water heater requires more gas than a conventional hot water heater, thus adding to the peak volumes.

B. Efforts to Improve System Reliability

Q. What are some of the techniques PSE's uses to maintain the safety and reliability of its gas and electric systems?

A. PSE uses a comprehensive set of standards for system design, construction, operation, and maintenance which are updated regularly to take into account proven practices, changes in regulatory mandates, component performance, worker feedback and advancements within the industry. These standards are complemented by a collection of equipment and materials specifications and are available in both hard copy and electronic format. The latter allows for real time distribution of updates, the ability to quickly search entire manuals, and ready access by field personnel.

The PSE workforce receives training to ensure they are versed in current standards, equipment operation, and material specifications. This training is a fundamental component for realizing the Company's safety and reliability objectives. Having standards and specifications improves system safety and reliability by establishing a foundation for commodity quality, operational efficiency, and consistency in workforce performance.

1. Natural Gas Operations Training and Quality Assessments

Q. How does PSE monitor and improve natural gas system safety and reliability?

A. The Company's Quality Control Department performs quality assessments and investigations on work performed by Gas Operations personnel. These assessments and investigations identify where standards are being followed and areas where worker performance needs to improve. When requirements and performance are not in accord, PSE has processes in place to effect improvement.

The underlying premise of the Company's written Quality Control Plan is that performing quality work depends upon a disciplined and integrated approach to understanding the requirements, and preparing for, executing, and following-up on the work required to comply with applicable standards.

Q. Does PSE provide training to personnel who work on the gas infrastructure?

A. Yes. PSE's Gas Operations Training Department assists in preparing workers to safely construct, operate, inspect and maintain the natural gas delivery system. As part of its ongoing review and upgrades of Company practices, in 2010 the Company made a significant change in the way training is provided and evaluated. The Operator Qualification ("OQ") training increased the number of performance evaluations for tasks performed by natural gas journeymen and

moved them to a hands-on field simulation. A training area at PSE's Georgetown Operations Base contains actual system infrastructure where students perform the work covered by the performance evaluations outdoors – in a live simulated, yet controlled environment – rather than in an indoor lecture and verbal response format. Using gas system mock-ups, the training staff is able to evaluate an employee's ability to perform tasks in a more realistic maintenance or emergency scenario to ensure that the employee has the necessary understanding and ability to complete the task as required.

The Gas Operations Training Department actively participated in the development of the Company's new learning management system which provides on-line training materials and testing with improved tracking and reporting. The Company's use of computer-based training through its membership in the Energy Industry CBT Alliance ("EICA") has also increased the customizable library of on-line training available for employees in the field. These new resources have expanded the amount of training that can be provided electronically to employees and have minimized time required to get new practices or procedures to field personnel.

The Company also monitors the effectiveness of contractor training programs through its quality assurance inspections described later in this testimony. Contractors are required to have quality control plans in place and the Company

performs quality assurance inspections and audits to confirm a contractor's quality control efforts are effective.

2. Electric Operations Training and Risk Management

Q. Would you please describe PSE's training and development of skilled electric operations personnel?

A. PSE has undertaken a number of efforts to promote and maintain a productive and skilled workforce. Since 2008, approximately 20 percent of PSE's service linemen have retired. Based on the ages of the remaining workforce, PSE could lose an additional 30 percent of this work group in the next five years. Anticipating this possibility, an inventory of essential knowledge-transfer subjects was compiled and topics are regularly discussed during staff meetings and training sessions. Service linemen partnering assignments place newer hires with more experienced personnel, and the staffing level was augmented to include sufficient time for knowledge transfer prior to a service lineman's retirement. Service lineman training materials are provided to all new hires and are used in ongoing education. PSE also collaborated with the International Brotherhood of Electrical Workers ("IBEW") to update the service lineman hiring, testing and interview process.

3. Quality Assurance Inspections

Q. Please describe PSE's Quality Assurance efforts as they pertain to improving natural gas and electric system safety and reliability.

A. PSE requires that work performed on its natural gas and electric delivery systems be in compliance with its documented standards. To that end, PSE has in place a system of audit and inspection activities to monitor the effectiveness of its service providers' and contractors' quality control programs.

PSE's Quality Assurance and Inspection ("QA&I") Department performs both routine and specialized target audits. Routine audits are conducted monthly, quarterly and annually. Once developed, routine audit procedures are repeated for subsequent audits. For example, in 2010 QA&I performed approximately 1,400 gas site audit inspections of the work conducted by PSE's natural gas service provider and approximately 1,500 electric site audit inspections of the work conducted by PSE's electric service provider.

Inspections of high pressure gas projects (pipelines intended to operate at or over 100 psig) are separated from other gas site audits. Because of the higher system pressures and potential for more significant damage if a high pressure system fails, PSE's quality control oversight on work performed by service providers and/or other contractors on high pressure gas systems is heightened. High pressure main installations under construction are inspected daily and often an

inspector is present full time. During construction, PSE inspectors routinely discuss and resolve project issues with contractor personnel in order to minimize the potential for non-conforming work.

IV. FACTORS IMPACTING PSE'S COSTS

Q. What factors are driving up PSE's cost to provide natural gas and electric service to its customers?

A. PSE's natural gas and electric delivery systems are both increasing in size and they are aging. At the same time, new regulatory compliance obligations are being imposed on PSE and the existing ones are being modified to include more stringent requirements. These obligations pertain to federal natural gas safety regulations, mandated federal electric reliability standards, as well as municipal, county and state jurisdictional construction requirements. The slow economic recovery has also affected costs. These factors are discussed more fully later in this testimony.

Q. Are there other factors that affect PSE's costs?

A. Yes. Weather or other natural occurrences can affect PSE's costs when a significant storm, fire or earthquake destroys infrastructure or adversely affects service to customers. In the test year 2010 there was one catastrophic storm

event. The financial impact of this storm is further discussed in the testimony of Mr. John Story, Exhibit No. ___(JHS-1T).

A. The Size and Age of PSE's Delivery System Infrastructure

Q. How has the size of PSE's natural gas and electric delivery systems changed over the past few years?

A. The number of miles of main in PSE's gas system has increased by approximately 482 miles from the beginning of 2007 to the end of 2010. Likewise in this same time period, the number of miles of PSE's electric delivery system has grown by approximately 678 miles of transmission and distribution lines and by 15 transmission and distribution substations. Adding more line miles or more major infrastructure components (e.g., substations) to a system increases the size and quantity of facilities that must be inspected, maintained and eventually replaced. This system growth increases future capital investment and operating costs.

Q. How does aging infrastructure affect PSE's costs?

A. With continued maintenance, natural gas and electric infrastructure can last for many decades; however, there comes a point where the continued investment in maintenance is insufficient to provide for the continued safe and reliable operation of the system. A significant percentage of PSE's delivery infrastructure is at that point. For instance, approximately 17 percent of PSE's gas mains

(approximately 2,100 miles) were installed prior to 1970 and are candidates for replacement. In addition, 50 percent of PSE's substation transformers are more than 30 years old and will likely be in need of replacement to allow for continued safe and reliable operation of the system. Another example is that approximately two and-a-half percent of PSE's wood distribution poles (7,500 poles) were installed prior to 1955. As discussed below, the new plant is significantly more expensive than plant being replaced and it must be periodically inspected and tested and properly maintained.

Q. Using the pre-1970s gas main example, at what rate is that system being replaced?

A. During the period 2008 through 2010, PSE replaced or retired approximately 50 miles of main (of all types and ages) on average each year. At this rate, it would take approximately 42 more years to replace or retire the remaining pre-1970s mains.

Q. How does PSE determine when gas or electric infrastructure needs to be replaced?

A. As described later in this testimony, for certain types of equipment components, the Company has developed proactive plans based upon engineering analytics; vintage; equipment performance; and other factors. Replacing infrastructure in this manner maintains the reliability of the gas and electric delivery systems and

minimizes the impact of having to replace large quantities of equipment or distribution facilities in an emergency or unplanned manner.

1. Maintenance and Replacement of Natural Gas Infrastructure

Q. Please generally describe PSE's ongoing maintenance and replacement of natural gas infrastructure.

A. PSE-owned natural gas infrastructure includes mains, services, valves, meters, cathodic protection sites, and pressure-regulating stations necessary to provide gas service to PSE customers. The Company's natural gas replacement and remediation projects target system components that are impacted by leakage, compliance initiatives, age, and damage caused by unplanned events such as third-party dig-ups.

As natural gas mains age, they may become more susceptible to leakage, which directly affects natural gas system reliability and safety. PSE evaluates aging natural gas systems to determine which ones have the highest priority for replacement. Additionally, as part of PSE's bare steel pipe replacement effort, the Company has been replacing bare steel pipe, which was installed prior to the advent of wrapped steel or plastic pipe. The program covers over 200 miles of bare steel mains and services and is expected to be completed in 2014. Through 2010, PSE has replaced approximately 122 miles of main and anticipates replacing an additional 24 miles in 2011. The Company expects to invest nearly

$200 million dollars over the life of the replacement program. PSE is also evaluating wrapped steel service lines that were installed prior to 1972 (when cathodic protection requirements were established) in order to identify service lines to be proactively replaced as they near the end of their service life.

PSE evaluates natural gas mains that are not currently under a programmatic replacement effort based upon field condition reports generated when the natural gas main is exposed for repairs or other work coupled with operating history, such as leakage and cathodic protection data. PSE evaluates other natural gas facilities, such as district regulator stations, for replacement based upon their condition and maintainability as reported in regular inspection reports.

Q. Are there other factors that may impact the way in which the Company approaches maintenance and replacement of natural gas infrastructure?

Yes. The recent pipeline explosions in California, Pennsylvania and elsewhere have heightened awareness of pipeline age, public safety and infrastructure replacement needs. Several measures are being debated in Congress that, if enacted, could impose additional obligations on gas utilities that would need to be incorporated in the Company's maintenance and replacement analyses. Additionally, in November 2009, the Pipeline and Hazardous Materials Safety Administration ("PHMSA") issued its final rule on Distribution Integrity Management Program ("DIMP"). This federal rule required natural gas

distribution pipeline operators to develop a written program to identify threats to the pipeline system and develop mitigation strategies to minimize these threats to continue the safe and reliable operation of the system. As the Company develops its DIMP, it will be looking at its entire pipeline network and anticipates additional maintenance and replacement programs may be identified and implemented.

Q. How does PSE's proposed Pipeline Integrity Program integrate with these other programs?

A. The Pipeline Integrity Program ("PIP") proposal, filed on April 26, 2011 in Docket UG-110723, is intended to advance public safety by providing for the timely recovery of the Company's investment in new plant for specific pipeline safety programs. The initial scope of the PIP is limited to: (1) Bare Steel Replacement; (2) Wrapped Steel Service Assessment; (3) Wrapped Steel Main Assessment; and (4) Older Polyethylene Pipe Replacement. The PIP is meant to target system replacement where both the Company and the Commission, through the Office of Pipeline Safety, concur on the scope and schedule of a defined maintenance or replacement program that addresses and enhances the highest public safety priorities.

Q. Are any new natural gas replacement programs anticipated?

A. Yes. As discussed earlier in this testimony and in response to the federal PHMSA requirement, the Company is developing its DIMP, which will identify pipeline integrity risks, as well as plans and programs to address these risks. As system components age and field reports and inspection information is collected and analyzed, other holistic replacement programs could be developed and implemented.

2. Maintenance and Replacement of Electric Infrastructure

Q. Please generally describe PSE's ongoing maintenance and replacement of electric infrastructure.

A. PSE's transmission and distribution equipment includes, among other things, substation equipment (including control and protection equipment), transmission and distribution poles and crossarms, and underground cables. Programmatic replacement of assets is generally limited to assets that have a high consequence of failure (such as substation equipment) or a well-defined end of life condition (such as poles or cables that fail inspection).

Certain equipment requires continual maintenance and testing such as substation transformers, circuit breakers, control and protection systems, and switches. PSE maintains this type of equipment by using condition-based maintenance which includes monitoring the equipment's age, make and model, number of operations

performed, maintenance history, and inspection results. PSE replaces the equipment when it is no longer economical to maintain based on its condition or the availability of spare parts. Other types of equipment, such as wood poles and underground cable, are replaced based upon condition as determined by field observations of PSE employees or service providers or by systematic inspection programs. One such systematic inspection program is the testing and treating of older wood poles, which allows PSE to either schedule the replacement of the pole or extend its lifespan by inhibiting wood decay.

Q. Are any new electric infrastructure replacement programs anticipated?

A. Not at this time. However, similar to natural gas infrastructure, as electric system components age and field reports and inspection information is collected and analyzed, other holistic replacement programs could be developed and implemented. For example, some electric distribution system components do not impact a significant number of customers and pose a minimal safety risk when they fail (e.g., when a residential transformer stops operating). Even though this type of equipment is not currently part of a programmatic replacement effort, the Company continues to monitor industry trends, considers field reports on component performance, and may consider additional replacement programs in the future.

3. Prioritization of Infrastructure Replacement

Q. How does PSE prioritize its replacement of gas and electric infrastructure?

A. Infrastructure replacement is driven by a number of factors including operating performance (e.g., outages, leaks), vintage (e.g., age, condition, manufacturer), maintenance and inspection history (both findings and actions), compliance criteria, operating environment (e.g., wet, dry, freeze/thaw, exposure to salt air), cost to maintain versus cost to replace, and opportunity to package replacement work with other planned actions to lower costs. These factors can, but do not always, determine what projects are funded. For example, replacements due to compliance obligations and relocations have generally been increasing even though these facilities often would not have been candidates for replacement due to age, and this leaves fewer dollars available for other prioritized projects. Although the Company includes compliance and mandated relocation replacement projects in the prioritization modeling, the compliance and relocation replacement projects are not optional and will be performed irrespective of the modeling results.

That said, the Company performs infrastructure replacement in addition to the compliance and relocation replacement projects in order to minimize compromising service to customers. PSE aspires to replace infrastructure before reliability is compromised, but the need to spend dollars on compliance and

mandated requirements, along with the quantity of older system components eligible for replacement, will require many decades of investment.

PSE's system planning process utilizes a variety of engineering modeling, financial analysis and analytical hierarchy decision-making tools to plan and prioritize its gas and electric system infrastructure investments that are not otherwise prescribed by customer requests on tariffed services, regulatory requirements, or jurisdictional relocation mandates. For example, PSE has several well-established maintenance and refurbishment initiatives, including cable replacement and substation maintenance. The system planning process measures the benefits versus costs of a given project and provides practical decision options from a portfolio of hundreds of projects. This decision-making process allows PSE to evaluate and prioritize capital spending initiatives and programs. Projects are compared against one another, with an emphasis on maximizing the benefits across the project portfolio. Typically, system reliability, increased capacity and other kinds of projects are prioritized utilizing the system planning process. The process and tools continually evolve in an effort to optimize and improve the benefits obtained from PSE’s capital investments.

4. Costs to Replace and Upgrade Delivery System Assets

Q. Has PSE experienced increasing costs related to electric and natural gas system asset replacements and installations?

A. Yes. The cost to replace an aging system asset today needs to be compared to the cost of its original installation, which, on average, was approximately 30 years ago. In 1980, the cost to purchase and install a 45-foot distribution pole was $530; by 2010, the cost increased to over $4,790. During 2010 PSE installed approximately 2,900 45-foot distribution poles of which approximately 1,150 poles (roughly 40 percent), were replacement of poles deemed to be close to failure. This replacement increased the Company's depreciation expense per unit for these items by nine times the 1980 cost of comparable items. In addition, rate base increased by the cost of the new poles as the old poles were close to, or already, fully depreciated.

As another example, the cost to purchase and install four-inch diameter plastic gas main has increased from $9 per foot in 1980 to $109 per foot in 2010. During 2010 PSE installed nearly 15 miles of four-inch diameter plastic gas main of which approximately 2.5 miles (approximately 16 percent) was replacement of existing older infrastructure. This replacement increased depreciation per unit by over 10 times the 1980 cost of comparable items. Again, rate base increased by the cost of the new pipe as the old pipe was close to, or already, fully depreciated.

Q. Does PSE expect ongoing high levels of capital spending for the natural gas and electric delivery systems?

A. Yes, although capital spending is less than would have been the case in a robust and growing economy, PSE expects high levels of capital spending will be required to meet mandated infrastructure investment requirements, continue to maintain reliability levels, eliminate localized peak capacity constraints, and address needs associated with the Company's aging system. Capital spending could further increase: (1) if there are significant increases in housing starts; (2) if there are additional pipeline safety, electric reliability and municipal and county mandates, requirements and commitments; and (3) if the Company's own findings and system assessment determine the need for additional capital spending to maintain the safety of the systems. All of these factors could affect the quantity of system to be added, remediated or replaced.

Q. How much capital does PSE anticipate investing in 2011 for the natural gas system?

A. As shown in Exhibit No. ___(SML-4), the Company anticipates capital spending in the following categories:

- Gas compliance and/or mandated construction (the construction of infrastructure to meet regulatory commitments and timelines, often replacing older components) – approximately $52.6 million;

- Gas new customer construction (the construction of both main extensions and services requested by customers) – approximately $43.0 million;

- Gas increased capacity (the construction and/or upgrade of facilities to support current and future anticipated system demands) – approximately $9.2 million;

- Gas external commitments (the construction and/or relocation of facilities as required by jurisdictions as a condition of the franchise) – approximately $15.9 million;

- Gas unplanned construction (the construction of infrastructure that fails during the course of the year) – approximately $6.0 million;

- Gas planned remediation/replacements (the construction of infrastructure that the company deems necessary above compliance requirements, such as additional gas gauges and SCADA points) – approximately $2.3 million; and

- Gas other costs (includes customer reimbursed projects, fleet, capital tools, security systems, etc.) – approximately $3.0 million.

Q. How much capital does PSE anticipate investing in 2011 for the electric system?

A. As shown in Exhibit No. ___(SML-4) the Company anticipates capital spending in the following categories:

- Electric compliance projects including new transmission lines, re-built and uprated transmission lines that can carry more power, and the replacement of older components as necessary to meet NERC reliability standards. These projects total approximately $41.3 million;

- Electric new customer construction (the construction of both complex line extensions and simple services requested by customers) – approximately $17.8 million;

- Electric increased capacity (the construction and/or upgrade of facilities to support current and future anticipated system demands) – approximately $38.8 million;

- Electric external commitments (the construction and/or relocation of facilities as required by jurisdictions as a condition of the franchise) – approximately $21.9 million;

- Electric unplanned construction (the repair or replacement of infrastructure that fails during the course of the year) – approximately $29.7 million;

- Electric planned reliability projects (the construction or modification of system facilities to improve delivery reliability) – approximately $99.7 million; and

- Electric other costs (includes customer reimbursed projects, fleet, capital tools, security systems, etc.) – approximately $1.8 million.

Q. How does capital investment affect O&M spending?

A. In certain instances capital investment has a direct effect on the Company's O&M expense. For example, when PSE installs energy delivery system assets where there were previously none, the result will be an increase in ongoing O&M expenses since the newly-installed assets will need to be inspected and maintained for compliance with regulatory requirements and for system integrity purposes.

Energy delivery system assets that are installed to replace existing assets (e.g., as part of aging infrastructure replacement programs) may result in a reduction in the ongoing maintenance costs in the near term on that particular part of the system (e.g., fewer leaks requiring monitoring or fewer unplanned power outages).

However, replacement does not generally eliminate maintenance costs. For example, the replacement of gas mains and services would not eliminate maintenance since these replaced mains and services must be inspected at regular intervals or may have cathodic protection systems that can short-out due to third party interference or action. The monitoring of cathodic protection systems to identify a problem and its ultimate repair is not necessarily driven by age, but often by the inadvertent action of others. In addition, as the average age of the system increases, maintenance costs increase as new areas of maintenance are created. The net effect is that, overall for the entire system, O&M is going up.

Increasing capital investments can also generate an associated O&M expense related to the construction cost. As prescribed by FERC accounting practices under the Uniform System of Accounts, when certain construction activities take place, there is an associated operations and maintenance component. For example, when an older gas main is replaced and the service lines going to residences and businesses are not replaced, the work associated with tying the existing services into the new gas main is required to be accounted for as O&M expense.

B. Regulatory Compliance Requirements

Q. Please provide an overview of PSE's regulatory compliance obligations.

A. The Company is subject to numerous regulatory compliance obligations, each of them distinct in nature:

- Federal and state gas pipeline safety regulations;
- Accelerated pipe replacements as a result of safety commitments;
- Electric reliability standards (including stringent vegetation management practices under transmission lines) and Critical Infrastructure Protection standards (cyber security protection); and
- State and local regulations or ordinances concerning prescribed work, safety or environmental practices which influence the quantity and skill sets of workers, equipment and materials needed to perform work.

Q. Please describe PSE's efforts to improve and maintain compliance with natural gas and electric regulatory requirements.

A. The Company is committed to constructing, operating and maintaining safe gas and electric delivery systems that comply with applicable regulations. Because there has been an increase in the number of regulations and requirements that govern PSE's natural gas and electric businesses, PSE compliance activities and

associated costs have increased accordingly. Additionally, PSE has taken steps over the last several years to support and strengthen its regulatory compliance procedures in concert with discussions with the WUTC's Office of Pipeline Safety.

PSE has also implemented internal corporate ethics and compliance training, as well as other safeguards to promote employee understanding and accurate reporting associated with regulatory compliance.

Q. Are there any other factors to be considered?

A. Yes. PSE has electric system facilities that are subject both to FERC and WUTC jurisdiction. Specifically for PSE's electric transmission facilities, FERC has authority to approve reliability standards and assess penalties and sanctions when users, owners and operators of the bulk-power system (such as PSE) do not comply with those standards. FERC certified the North American Electric Reliability Corporation ("NERC") as the Electric Reliability Organization to oversee the reliability of the U.S. portion of the North American bulk-power system. NERC also works with eight "Regional Entities" as part of its regulatory duties and has delegated portions of its compliance and enforcement authority to them. PSE, by virtue of its location and service territory in the Western United States, is under the enforcement authority of the Western Electricity Coordinating Council ("WECC").

FERC has moved to redefine the bulk electric system and its regulatory reliability authority over the bulk electric system to a 100 kV threshold. This has the effect of imposing FERC, NERC and WECC compliance on much more of PSE's electric system than just the 230 kV system and thus increases costs. For example, NERC issued a recent Alert (which is further described later in this testimony) and as a consequence the Company is obligated to ensure that transmission lines are not encroached upon thus affecting the operation of the lines. PSE has chosen the use of light detection and ranging ("LiDAR") equipment as the most effective and accurate means of assessing the condition of the system. Ultimately, the Company will need to address any encroachments it finds, but using the new 100 kV threshold, the Company estimates the LiDAR assessment will cost approximately $1.4 million, which does not include costs associated with addressing encroachment issues.

To ensure that transmission costs are properly allocated between customer groups, PSE is currently evaluating the possible reclassification of its distribution and transmission assets to align with FERC's definition

1. Increasing Electric Reliability Compliance Obligations

Q. Do specific federal reliability standards apply to PSE?

A. Yes. PSE performs and is registered with NERC to carry out the following functions: Balancing Authority, Distribution Provider, Generation Operator,

Generation Owner, Load Serving Entity, Planning Authority, Purchasing-Selling Entity, Resource Planner, Transmission Operator, Transmission Owner, Transmission Planner, and Transmission service provider. An entity that registers as performing a particular function is required to comply with the reliability standards and requirements associated with that function.

Q. Please describe the evolving nature of these reliability standards.

A. NERC has developed three-year cycles for its standards development and review efforts. Many of the NERC reliability standards have been revised and are more prescriptive and often have broader application than the prior version. In 2010, Version 3 of the Critical Infrastructure Protection ("CIP") standards became effective and increased the requirements for security of monitoring equipment and management of personnel who are not authorized for access to critical asset areas. Additionally, a standard relative to transmission loadability (PRC-023) became effective and required an increase in engineering studies and coordination of transmission relays to ensure they do not limit the loadability of transmission lines.

Another example of the evolving nature of these compliance mandates is the 2008 launch of the NERC Alerts system. The purpose of the Alerts system is to rapidly disseminate vulnerability information to utilities in order to maintain reliability. As a registered entity, PSE is required to participate in the process and must take

action to understand the ramifications of the identified vulnerability to PSE's system. Reviewing, taking action and responding to these Alerts requires significant investment of resources. For example, as was covered earlier, the Company is reviewing and responding to a current Alert on possible transmission line corridor encroachments which is expected to take three years, involves PSE's Engineering, Transmission Planning, Vegetation Management, Real Estate, and Compliance resources, and will cost approximately $1.4 million to perform the required assessment, not including any needed mitigation.

Q. Please describe the WECC reliability audit process.

A. WECC conducts an on-site audit of PSE's compliance with the NERC Reliability Standards every three years. In August 2010, WECC performed its second audit of PSE's reliability compliance efforts. Since the first audit in 2007, WECC's audit teams have matured and are reviewing compliance records with increased scrutiny as demonstrated by the audit length increasing from one week to two weeks. In addition, the audit scope was expanded to include all 12 of PSE's registered NERC functions. The number of on-site auditors increased from 9 to 19, and the audit team included a FERC member and an observer from the SERC Reliability Corporation (one of the other eight regional entities working with NERC). Focused preparation efforts for the 2010 audit began in 2009, including weekly meetings of 14 different organizations within PSE who had responsibility for meeting standards and development of processes and maintaining evidence,

which was submitted electronically. In the final six weeks before the audit, employees compiled thousands of pages of evidence in the required electronic format.

Q. Please describe other electric system compliance standards with which PSE must comply.

A. PSE is governed by, and complies with, various provisions in the Washington Administrative Code ("WAC") addressing employee workplace safety, personal protective equipment, consumer rules, metering rules, and safety and standards rules. These regulations are intended to protect the workforce and mitigate potential workplace hazards to the extent possible, and to protect consumers and the public in general.

2. Increasing Pipeline Safety Compliance Obligations

Q. What are some of the new pipeline safety regulations that impact PSE?

A. As discussed previously, the Pipeline and Hazardous Materials Safety Administration ("PHMSA") issued the final Distribution Integrity Management Program ("DIMP") rule. The DIMP rule requires operators of gas distribution lines to develop and implement integrity management programs for their pipeline systems in order to identify threats, evaluate risks and implement measures to reduce risks to the distribution system. The Company's initial DIMP must be

developed by August 2011. In 2010 the Company added staff in order to develop its DIMP. Additionally, in order to fully comply with the intent of DIMP, more comprehensive gas asset records must be collected and become more easily available for engineering analytics, which is a significant driver toward the Company's implementation of a geospatial information system ("GIS").

Another PHMSA requirement is that PSE must develop a Control Room Management ("CRM") plan by August 1, 2011 with full implementation by February 1, 2013, and expedited implementation deadlines have been proposed. Irrespective of the final effective date, PSE's CRM plan must schedule work shifts that do not contribute to gas control worker fatigue, and provide workers with information, training and processes to fulfill the responsibilities as prescribed by the regulation. Based upon the CRM regulations, PSE added three employees to allow for sufficient off-duty times to mitigate potential operator fatigue and to perform the ongoing alarm system analysis, examination and programming modification. Even though the Company's prior staffing levels have not adversely affected safety in the past, the Company is required by the regulations to make these changes.

3. Increasing Costs from Safety and Reliability Compliance Obligations

Q. Are O&M and capital costs affected by changes in regulatory compliance requirements?

A. Yes. Although a new regulatory obligation may not always drive a change in a particular work practice, it often results in modifications in record keeping, technology systems, oversight and administrative processes because the Company must be able to demonstrate compliance with the regulation. In some cases, however, the Company must also adjust its work practices as a result of regulatory change (e.g., the requirement to install excess flow valves on new residential gas services).

Additionally, regulatory compliance requirements and settlement commitments can prescribe a specific schedule for remediation or replacement of infrastructure and the Company may not be able to delay the related capital construction and O&M costs.

Q. Have the overall impacts of natural gas and electric compliance mandates resulted in increased capital costs?

A. Yes. In 2005, the Company spent roughly $21 million in investments targeted for regulatory driven compliance mandates for natural gas. In 2010, this same category of spending grew to $50 million. Compliance mandates also resulted in

an increase in capital spending on the electric system. In 2005, PSE spent roughly $17 million in investments targeted for regulatory driven compliance work and by 2010 this same category of spending had grown to roughly $42 million.

Although the Company would have ultimately made many of these investments the ability to choose when to do so has been removed from the Company's purview. During a time when customers may prefer PSE to reduce or even defer its spending, the Company has not had the latitude to consider doing so, and there has been a combined $54 million increase in compliance related capital investments.

C. Municipal, County and State Jurisdictional Construction Requirements

1. Increasing Natural Gas Construction Requirements

Q. Please describe the municipal, county and other requirements that have increased PSE's cost of natural gas construction.

A. There are a number of new municipal and county construction requirements that increase PSE's natural gas construction costs. As I discussed previously, the cost to install one foot of 4-inch diameter gas main has increased from $9 per foot in 1980 to nearly $109 per foot in 2010. This is due, at least in part, to the fact that in many jurisdictions current mandates did not necessarily exist or did not apply

to installations twenty or in some cases even five years ago. The types of current requirements I am referring to include: permitting; municipal or county inspections; traffic control plans and associated labor and equipment; preventive actions to minimize soil erosion, including the contamination of streams and drainages; and partial and, in some cases, full roadbed and paving restorations.

To further illustrate the changes in construction practices that are often now required, please refer to Exhibit No. ___(SML-5), which consists of a series of comparative photographs of natural gas main installations.

Q. Have natural gas construction costs also been affected by state or local construction permit requirements?

A. Yes. There have been general permit rate increases and an increasing number of PSE natural gas projects now require a permit and fee. For example, in 2006, the Department of Ecology changed the threshold for new storm water discharge requirements from five acres of work site area to one acre of work site area. Although the majority of the Company's natural gas construction projects are below the five-acre threshold, many projects are not below the one-acre threshold. Therefore, an increasing number of PSE's natural gas construction projects are now subject to the storm water discharge requirements, which include obtaining a National Pollutant Discharge Elimination System ("NPDES") permit, a State Environmental Policy Act ("SEPA") permit, and a Shoreline Substantial

Development Permit ("SSDP") as well as preparing a Storm Water Pollution Prevention Plan.

2. Increasing Electric Construction Requirements

Q. Please describe the municipal, county, and other requirements that have increased PSE's cost of electric construction.

A. Much like the natural gas side of the business, PSE faces changing jurisdictional-imposed requirements on a continual basis. Many jurisdictions have adopted "Clear Zone" requirements which specify a calculated distance from the "traveled roadway" where no objects greater than four inches in height or four inches in diameter are allowed. These Clear Zone requirements vary from jurisdiction to jurisdiction but are generally based upon the average traffic volume, road configuration and the speed limit of the road.

Often times when PSE is performing routine maintenance or upgrades on overhead distribution or transmission lines affecting more than a single pole, or when the Company is renewing a franchise agreement with Washington State Department of Transportation, the Clear Zone requirements necessitate PSE relocate the entire series of poles to meet clear zone mandates. In many cases, these poles are not otherwise in need of replacement and in some cases, there may not be adequate right-of-way for the new pole locations and PSE is then faced with the added cost of acquiring easements. Although these Clear Zone

requirements are not new, jurisdictions have become more aggressive about enforcing the requirements.

Q. Have electric construction costs also been affected by state or local construction permit requirements?

A. Yes, both hourly and flat permitting fees have generally increased across jurisdictions at the state, county and municipal levels. In addition to fee increases, PSE continues to see increasing costs for environmental mitigation during construction (surface water management, etc.) and for restoration (full width paving, planting and irrigation, etc.) in the same way as these requirements have affected natural gas construction costs.

Q. Do you have an example of where municipal or county requirements have increased PSE's electric construction costs?

A. Yes. Please refer to Exhibit No. ___(SML-6), which consists of a set of comparative photographs and a description of a recent electric transmission line upgrade construction project. The transmission line crosses the Stillaguamish River in unincorporated Snohomish County. PSE initially intended to use a three-pole design with the 90-foot steel poles directly embedded in the ground as part of the line upgrade. It was determined by the county that the line crosses the Channel Migration Zone of the Stillaguamish River. As a consequence,

Snohomish County required the Company to complete a Channel Migration Zone Analysis and a 100-Year Scour Analysis.

The studies show that the transmission line runs through a flood plain and would need to be constructed in accordance with relevant County flood hazard requirements, including the compliance requirements set forth in guidelines issued by the Federal Emergency Management Agency ("FEMA") for construction in a flood plain. In order to comply with the jurisdictional code, the poles would need to be able to withstand the erosion of 23 feet of terra firma in the event of a flood, and still have an adequate foundation to remain standing. If followed, the flood hazard requirements would have necessitated the Company construct two 145-foot poles, each with an 80-foot foundation adjacent to the existing 75-foot H-frame structures. The PSE planning team believed that the 145-foot pole design would inhibit future line maintenance, was not aesthetically pleasing and would be rejected by nearby landowners. PSE proposed an alternate design to the County. The County ultimately approved the use of two 120-foot double circuit steel poles installed on 70-foot and 60-foot foundations.

Q. Did the Company experience an increase in costs due to the County code requirements?

A. Yes. The migration/scour study cost approximately $103,000. The double circuit steel poles with labor for installation cost approximately $287,000 and the cost

for the deep concrete foundations was $531,000. If PSE had been able to use the single circuit steel poles embedded directly into the ground as it originally intended, the poles and installation would have cost approximately $219,000. The total incremental cost between the original design/cost estimate and the cost of the design that was ultimately required, including the cost of the study, was approximately $702,000.

D. The Economic Downturn

Q. Has the economic downturn affected PSE's costs?

A. Yes. The severe economic downturn has made it increasingly difficult for more of PSE's customers to pay for their gas and electric service, including customers that have not been late or delinquent in the past. The Company's bad debt is at an all time high. PSE's accumulated provision for uncollectible accounts (APUA) has increased from $11.8 million in 2008 to $16.4 million in 2009 and to $16.9 million in 2010.

Q. Has the Company seen any change in the number of customer calls received?

A. Yes. The economic downturn appears to have also increased the quantity of customer calls received. For example, customers that are balancing limited resources and reduced income levels with ongoing living expenses may contact PSE multiple times regarding their electric or gas bills, first to make payment

arrangements and then additional times in order to negotiate smaller payments to match their available income. Calls to make payment arrangements and to negotiate smaller payments take more time than calls regarding typical billing or outage questions which has driven the average call length from approximately four to seven minutes.

The increased time spent on a call also increases the cost per call. The average cost per call in 2009 was approximately $6 and the average cost per call in 2010 was almost $8.

Q. What effects has the current economic condition had on PSE's O&M spending?

A. PSE has seen an increase in the number of customer disconnects for nonpayment, and subsequent reconnects, which also increase PSE's O&M costs. The disconnects and reconnects are additional unplanned work, which must be assimilated with the work already scheduled and planned. This work often occurs after normal service hours in order to meet the customers' needs and PSE's obligation for turning service back on in a timely manner.

V. ELIMINATION OF SERVICE QUALITY INDEX NO. 9: DISCONNECTION RATIO

Q. Please describe Service Quality Index No. 9: Disconnection Ratio (SQI-9).

A. The Company first implemented its Service Quality Index Program pursuant to Docket Nos. UE-951270 and UE-960195, which authorized the merger of Washington Natural Gas Company and Puget Sound Power & Light Company. One of the indices was SQI-9, the Disconnection Ratio benchmark, which set a cap on how many customers in arrears can be disconnected when Commission disconnection rules would permit service curtailment.

Q. What is the current status of SQI-9?

A. SQI-9 has been eliminated on an interim basis pursuant to Commission Order 16 in Docket Nos. UE-072300 and UG-072301. The Company is required to include information on its disconnection activities in the annual SQI reporting exhibits.

Q. Please describe the history of SQI-9.

A. In October 2009, PSE requested to increase the benchmark associated with SQI-9 from 0.030 to 0.038 disconnections per customer in light of increasing uncollectible revenues due to the deteriorating economic situation. On November 13, 2009, the Commission granted PSE's request in Order 14 in Docket Nos. UE-072300 and UG-072301.

In June 2010, the Company submitted a request to eliminate SQI-9. Commission Staff supported PSE's request. The Energy Project and Public Counsel opposed the request at that time, arguing instead that the matter should be taken up as part of the Company's next general rate case. On August 10, 2010, in Order 16, the Commission granted PSE's application to eliminate SQI-9 on an interim basis and ordered that permanent elimination of the benchmark be considered in PSE's next general rate proceeding.

Q. Would it be appropriate to permanently eliminate SQI-9 at this time?

A. Yes. The benchmarking index in SQI-9 hinders PSE's ability to carry out Commission credit and disconnection rules set forth in the WAC. There are potential unintended financial and customer effects of any disconnection benchmark. Such a benchmark can result in inequitable treatment because some customers eligible to be disconnected for nonpayment are, in fact, disconnected each month while others are not – simply because the quota of allowed disconnects has been met. More specifically with regard to SQI-9, maintaining the benchmark is likely to interfere with proper application of customer protections including rules governing refusal of service, disconnection of service, complaint/dispute resolution, and billing and payment requirements.

PSE believes the Commission's credit and disconnection rules protect customers, and reinstatement of SQI-9 could interfere with proper application of the

customer protections listed above. The Company offers payment plans and various financial assistance opportunities to help customers manage their bills and avoid service disconnection. The budget payment plan and the time payment arrangements are available to all customers as provided in PSE's tariffs. PSE also works with local community agencies to support customers who need extra help. These programs include PSE's conservation low-income weatherization program to reduce customer usage and payment assistance programs such as PSE's HELP program and Warm Home Fund, the federal government's LIHEAP Program, and pledges from local charities.

In light of the payment assistance programs and the credit and disconnect guidelines set forth in the Commission rules, PSE customers are adequately protected when SQI-9 is eliminated. Therefore, the Company proposes to permanently eliminate SQI-9. PSE is agreeable to continuing to provide the information on disconnection activities in the exhibit section of its annual SQI filing, should the Commission wish the Company do so.

VI. CONCLUSION

Q. Please summarize your testimony.

A. PSE continues to be an efficient provider of safe and reliable electric and natural gas service to its customers. However, the Company's aging electric and gas delivery systems, increasing regulatory and compliance requirements and ongoing

(albeit slower) system growth continue to drive high levels of capital investment and operations and maintenance expenditures. In the current economic situation, PSE continues to see customers having difficulty paying their energy bills, which has created higher levels of uncollectible accounts and confirms PSE's decision to seek approval to permanently eliminate SQI-9.

Q. Does this conclude your testimony?

A. Yes, it does.