BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET NOs. UE-072300 and UG-072301

DIRECT TESTIMONY OF BARBARA R. ALEXANDER (BRA-1T)

ON BEHALF OF

PUBLIC COUNSEL AND THE ENERGY PROJECT

May 30, 2008

NON-CONFIDENTIAL

DIRECT TESTIMONY OF BARBARA R. ALEXANDER (BRA-1T)
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BARBARA R. ALEXANDER'S EXHIBIT LIST

Exhibit No. ___ (BRA-2)	Education and Employment History
Exhibit No. ___ (BRA-3)	PSE's Service Quality Index performance results for 1997 through 2007
Exhibit No. ___ (BRA-4)	PSE Response to Public Counsel Data Request No. 60 (Attachments A & B)
Exhibit No. ___ (BRA-5)	PSE Response to Public Counsel Data Request No. 483 (Attachments A & B)

I. INTRODUCTION / SUMMARY

Q: Please state your name and business address.

A: My name is Barbara R. Alexander. My consulting office is located at 83 Wedgewood Dr., Winthrop, Maine, 04364.

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

A: I am a self-employed independent consultant. I use the title of Consumer Affairs Consultant.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of the Public Counsel Section of the Washington Attorney General's Office (Public Counsel) and the Energy Project.

Q: Please describe your professional qualifications.

A: I opened my consulting practice in March, 1996, after nearly ten years as the Director of the Consumer Assistance Division of the Maine Public Utilities Commission. While there, I managed the resolution of informal customer complaints for electric, gas, telephone, and water utility services, and testified as an expert witness on consumer protection, customer service and low-income issues in rate cases and other investigations before the Commission. My current consulting practice is directed to consumer protection, customer service and low-income issues associated with both regulated utilities and retail competition markets. My recent clients include the Pennsylvania Office of Consumer Advocate, Maryland Office of People's Counsel, New Jersey Rate Counsel, Maine Office of Public Advocate, and various AARP state offices (Montana, New Jersey, Maine, Ohio, Virginia, Maryland, and the District of Columbia). I have

prepared testimony on behalf of my clients before state utility regulatory commissions in Pennsylvania, Maine, Vermont, California, New Jersey, Maryland, Illinois, Colorado, West Virginia, Iowa, Kansas, Texas, Wisconsin, Montana, Washington, and the Canadian Radio-Television and Telecommunications Commission.

With respect to my experience in Washington, I appeared on behalf of Public Counsel in the proceeding regarding the merger of Washington Natural Gas Co. and Puget Sound Power and Light Co. in 1996, which created Puget Sound Energy (PSE) (Docket No. UE-960195). It was in that proceeding that PSE's original Service Quality Index was developed and approved by the Commission. I have also assisted Public Counsel on matters relating to telecommunications service quality in various proceedings concerning Qwest's retail service quality performance and the structure of its service quality index.

I am also an attorney, and a graduate of the University of Michigan (1968) and the University of Maine School of Law (1976).

My resume and list of publications and testimony are provided in Exhibit No._____(BRA-2).

Q: What exhibits are you sponsoring in this proceeding?

A: I am sponsoring four exhibits: Exhibit No.___(BA-2) is my resume and list of publications and testimony since 1996; Exhibit No.___(BA-3) is a compilation of PSE's Service Quality Index performance results for 1997 through 2007; Exhibit No.___(BA-4) is PSE's Response to Public Counsel Data Request No. 60; and Exhibit No.___(BA-5) is PSE's Response to Public Counsel Data Request No. 483.

Q: Please describe the issues you will address in your testimony.

A: My testimony will address the following issues and respond to the testimony of the following PSE witnesses:

- PSE's storm damage and reliability programs and expenses, particularly those associated with the Hanukkah Eve Storm of December 2006, as reflected in the testimony of Mr. Greg Zeller and the revenue requirement proposals of Mr. John Story;
- PSE's compliance with the applicable Service Quality Index (SQI) and PSE's reliability performance as addressed in testimony by Ms. Susan McLain and how that performance should be reflected in the revenue determination in this proceeding, as well as how, or whether, the structure of the current SQI should be improved;
- PSE's inclusion of certain incentive pay costs in its revenue requirement, as reflected in the testimony of Mr. Thomas Hunt;
- PSE's proposal to significantly increase the fixed monthly customer charge for both gas and electric service, as reflected in the testimony of Ms. Janet Phelps (gas) and Mr. David Hoff (electric);
- PSE's funding for low-income bill payment assistance and energy conservation programs, as proposed by Mr. Eric Markell, Ms. Phelps, and Mr. Hoff; and
- PSE's policies in handling meter reading errors, the frequency of those errors, and the Company's practices for issuing make-up bills.

My testimony should be considered as complementary to that of Glenn Watkins (rate design and cost of service) and Michael Majoros (revenue requirement), who are also submitting testimony on behalf of Public Counsel.

Q: Please summarize your conclusions and recommendations.

A: The following is a bullet point summary of my conclusions and recommendations for each of the major topics I have addressed in my testimony:

- PSE's Storm Response Performance and Recovery of Storm Expenses for the Hanukkah Eve Storm—The report by KEMA on the Hanukkah Eve Storm and PSE's responses to the KEMA report recommendations, to date, suggest that PSE did not prepare itself or its distribution and transmission system to respond as effectively or as efficiently as it might otherwise have done. Furthermore, PSE's communications with customers, the media, and local officials was not adequate. Due to the Company's lack of preparedness on these basic measures and its failure to adopt or implement "best practices," I recommend that the Commission disallow the recovery of 5 percent of the $80 million costs associated with PSE's request for recovery of costs for the Hanukkah Eve Storm, equal to approximately $4 million.
- PSE's Service Quality Performance and Structure of the SQI— PSE's annual service quality reports filed with the Commission indicate that several aspects of the Company's service are in need of improvement. Additionally, the manner in which the SQI tracks customer call center performance fails to assure a reasonable level of service throughout the calendar year. My recommendations seek to

increase penalties to reflect PSE's growing revenues, reform the call center performance standard to reflect quarterly performance, respond to PSE's failure to meet the SAIDI standard for two consecutive years, and include additional reporting requirements that reflect emerging service quality performance results.

- PSE's Incentive Payment Program for Executives—PSE executives should not earn any incentive payment if the utility fails to meet any of the SQI performance requirements. I recommend that any rate recovery of salaries and incentive payment reflect a removal of any costs associated with this incentive payment program.
- PSE's Proposals to Dramatically Increase Fixed Monthly Residential Customer Charges—It is not appropriate, fair, understandable, or necessary to increase fixed customer monthly charges for residential customers in the amount or to the degree proposed by PSE. My testimony identifies the impact PSE's proposed fixed monthly charges would have on customers with low, medium, and high usage levels, as well as the resulting shift of risk to ratepayers and the effect this change could have on customers' conservation efforts.
- PSE's Low-Income Programs: Funding and Design—PSE's recommendation to match increased HELP funding with the percentage rate increase and impacts of its proposed rate design is insufficient. I recommend that PSE seek to increase the enrollment of qualified HELP customers over a several year period, beginning with an increase in the next program year of 5,000 additional customers over the number served in 2007. In the course of that effort, PSE should continue to work

with the HELP advisory committee to investigate ways to improve program delivery and effectiveness.

- PSE's Low-Income Programs: Energy Efficiency—PSE should increase funding for their low-income energy efficiency programs to compensate for the increased costs and to serve more households. Beginning in 2009, I recommend an increase of $1,500,000 over the annual average budget from the 2008 – 2007 biennium.
- PSE's Handling of "Zero" Meter Reads and Back-Billing Policies— I recommend that the Commission require its Staff to conduct a docketed investigation of the scope and policies associated with PSE's meter reading failures and back-billing policies. This investigation should be conducted in cooperation with Public Counsel and any other interested parties and result in a report to the Commission with findings and recommendations, with the possibility of further Commission action based on the report findings.

II. PSE STORM RESPONSE PERFORMANCE AND RECOVERY OF STORM EXPENSES FOR THE HANUKKAH EVE STORM

Q: Please summarize PSE's proposal with respect to recovery of Catastrophic Storm expenses, particularly with respect to the Hanukkah Eve Storm in December 2006.

A: Mr. Greg Zeller on behalf of PSE has testified that the total "qualified" storm restoration costs associated with 13-weather related events during the 12-month test year totaled over $119 million, of which $109 million were Operations and Maintenance costs.[1]

[1] The figures in this paragraph are from Mr. Zeller's Prefiled Direct Testimony as Revised on April 11, 2008 (Exhibit No. ____(GJZ-1T), at pages 6 and 12.

"Qualified" storm events are those that meet the Commission's previously approved definition of "major event" for outages that last over one minute. These events can then be deferred for future cost recovery by PSE, subject to future Commission approval of the underlying costs.[2] Of this $109 million, PSE deferred $98 million of "qualified" major storm expenses, which left $11 million recorded in expenses during the test year. Capital costs totaled $11 million and are accounted for in PSE's capital accounting procedures.

The total storm repair costs incurred for the Hanukkah Eve Storm in December 2006 were identified by Mr. Zeller as approximately $80 million. PSE has characterized this storm in particular as the worst and most severe storm in recent memory in terms of the widespread scale of the damage, customer outages, and costs to repair and restore service. PSE proposes to amortize the December 2006 storm over six years and other major storm expenses that qualify for deferral over three years. The total projected impact of these proposals would decrease Net Operating Income by $10.7 million and increase PSE's revenue deficiency by $17.3 million.[3]

[2] This methodology was approved in Order No. 06, Docket Nos. UE-040641/UG-040640. See pp. 84-88. Under the prior definition of "qualified" storm event, more than 25 percent of PSE's customers had to be impacted by outages due to weather-related causes. It should be noted that PSE is the only investor-owned utility with the authority to automatically defer storm-related costs. Other utilities expense such costs or seek a specific Commission waiver or approval for deferral of costs for future recovery. If the older version of "qualified" storm event had been in effect in 2006, only the Hanukkah Eve Storm would have qualified for automatic deferral. See PSE Response to Public Counsel Data Request No. 125.

[3] PSE Response to Public Counsel Data Request No. 54 (First Supplemental Response).

Q: Does your testimony address storm recovery costs generally?

A: No. My testimony is primarily focused on the costs incurred for the Hanukkah Eve Storm in December 2006. Mr. Michael Majoros on behalf of Public Counsel addresses storm recovery costs generally, as well as PSE's proposals for how or whether to defer and seek cost recovery over the proper amortization period. My testimony supports an adjustment to PSE's requested storm recovery costs in the amount of $4 million that is specifically directed to the costs incurred for the Hanukkah Eve Storm in December 2006.

Q: What aspects of the Hanukkah Eve Storm expenses have you reviewed and for what purpose?

A: I have not conducted an audit of the reasonableness of these costs. Nor have I conducted an independent study of PSE's actions both during and after the storm. Rather, I have reviewed the materials provided by PSE to the Commission in its informal investigations of the Hanukkah Eve Storm (particularly the materials distributed at the February 8, 2007 meeting which were provided to me by the Public Counsel representatives who attended the meeting), various newspaper articles about this storm and PSE's restoration efforts, the materials derived from discovery in this proceeding, and, most notably, the report done by KEMA, "Windstorm of December 14-15, 2006" [Puget Sound Energy Storm Restoration Review, July 2, 2007], attached to Mr. Zeller's testimony as Exhibit No.____ (GJZ-8).

Q: Based on your review of these materials, what are your findings and conclusions?

A: First, I want to state that I have no reason to criticize the good faith efforts undertaken by

PSE management, PSE employees, and the PSE contractors from within Washington and other states that worked to restore service after this dangerous storm. However, the KEMA report, and, to date, PSE's responses to the KEMA report recommendations suggest that PSE did not prepare itself or its distribution and transmission system to respond as effectively or as efficiently as it might otherwise have done. As a result, customer service during the storm restoration efforts suffered from the lack of accurate and timely information and it is more likely than not that PSE's storm restoration efforts were hampered by these deficiencies. Specifically, the KEMA report identified a number of "best practices" that PSE should have implemented or that were not relied upon by PSE in the operations of its distribution and transmission system reliability and customer service programs:

- PSE has not invested in or implemented a modern Outage Management System (OMS) that would have allowed PSE to more accurately and quickly identify the location and scope of the customer outages. OMS also would allow PSE to more efficiently schedule outage restoration activities;
- PSE's customer communications system was deficient in that customers and the public media were not able to be informed of the status of outage restoration activities in their general areas;
- PSE did not effectively communicate with or have the necessary communication policies and programs in place with state and local officials concerning storm damage assessments or restoration schedules;

- There is evidence that PSE's tree trimming and vegetation management policies and spending levels contributed to the amount of the damage sustained in this windstorm and other major weather related events in the last several years.

Q: With respect to the KEMA report, please summarize the "best practices" that PSE had not implemented and that contributed to the severity and costs associated with the Hanukkah Eve Storm.

A: KEMA identified four areas in which, if implemented, would have allowed PSE to respond to the storm more effectively: (1) systems to support outage information collection and management; (2) damage assessment processes to identify crew requirements and estimated outage duration; (3) vegetation management processes and access to rights of way for restoration; and (4) communication to customers of estimated restoration times.[4] These areas that need improvement were identified by KEMA based on their review of "leading practices in emergency restoration planning and processes."[5]

Specifically, KEMA highlighted the following issues and practices described below.

- Annual Planning for Emergency Restoration. KEMA found that PSE's Corporate Emergency Response Plan was insufficient for a storm of the scale of the Hanukkah Eve Storm and that the application and execution of this plan was "not fully institutionalized" by PSE and its storm restoration contractor, Potelco.[6]

[4] KEMA Report at 2.
[5] KEMA Report at 2-1.
[6] KEMA Report at 4-2.

- Emergency Restoration—Imminent Event Plan. KEMA found that many PSE employees understood the magnitude of the storm and the length of time that was likely to elapse prior to a significant restoration progress, but failed to publicly provide restoration estimates to customers or others within PSE. Furthermore, KEMA found that PSE does not have a storm classification methodology to estimate storm impacts and resource requirements before and shortly after a major storm strikes.[7]
- Emergency Restoration—Event Assessment. KEMA found that PSE's formal damage assessment process was not of a sufficient scale to provide adequate and timely information to management during the storm.[8]
- Emergency Restoration—Execution. KEMA found that the Emergency Operations Center processes and functions appeared to become more "ad hoc" as pressure to respond mounted from the public. During the restoration effort, the quality of the information delivered to the public "did not appear to improve as time passed."[9]
- Emergency Restoration—External Communications. KEMA found that PSE should have communicated the severity of the outage to customers sooner and that most customers did not receive localized restoration information. KEMA particularly criticized PSE's customer communications content in the early days

[7] KEMA Report at 5-2.
[8] KEMA Report at 6-2.
[9] KEMA Report at 7-2.

of the storm restoration process. Communications with critical customers, media, and municipalities were not well coordinated or implemented in an effective manner.[10]

- Emergency Restoration—Customer Service. KEMA found that PSE's call center technology was "marginal" for high volume of calls during restoration efforts. Among other concerns was that PSE's inbound call system does not differentiate calls by geographic origination and that it did not have the capability to automatically generate individual restoration estimates. Finally, and importantly, customer service representatives could not provide customers with timely and accurate restoration information because of the need to manually enter restoration estimates and repair times from the on-site crew. During the first three to five days of this storm, restoration times were not provided into PSE's ConsumerLinX (CLX) system.[11]
- Emergency Restoration—Information Systems and Process. KEMA identified the clear lack of any modern Outage Management System installed by PSE as a serious problem in the Company's storm response. As KEMA stated, "A leading OMS maintains an up-to-date distribution system connectivity model that reflects the current configuration of the electric system. Reported outages are analyzed

[10] KEMA Report at 8-2 through 8-5.
[11] KEMA Report at 9-2 through 9-5.

against the system model compared to the current operating status of key equipment, e.g., substations, transformers, and switches."[12]

A properly designed OMS will integrate the various key systems, such as the customer information database, the call center menus and responses, the work management system, and the mobile workforce management system. The lack of OMS contributed to PSE's inability to handle the field data volume that this storm generated and translate that data into usable information. PSE has no automated technology to "roll up" outage and restoration information from the field to the Emergency Operations Center. The damage assessment reports are manually recorded on forms that are kept near the Storm Board at the Operations Center. Finally, KEMA concluded that, "The lack of an outage management system severely hampered the efficiency of the restoration process."[13]

- Vegetation Management and System "Hardening." KEMA had positive statements concerning PSE's $8 million per year vegetation management program, tree cycle trimming, and the Tree Watch program. However, KEMA stated that the narrow rights-of-way for transmission lines in heavily vegetated areas significantly contributed to the severity of the damage and extended restoration times. KEMA noted that 25 percent of all non-storm customer outages are tree-related based on the 2006 reliability results.[14]

[12] KEMA Report at 10-2.
[13] KEMA Report at 10-7.
[14] KEMA Report at 14-2 through 14-3.

Q: Has PSE responded to KEMA's recommendations and agreed to implement all of them?

A: PSE has agreed to implement many of the recommendations and has undertaken many reforms to revise and update its emergency management plans and practices. However, several of these recommendations, particularly with respect to the lack of a modern OMS, as well as deficiencies identified with respect to PSE's protocols for communication with the public and public officials suggest a measure of imprudence that the Commission should not ignore in the context of this base rate case and request for rate recovery of these storm damage expenses.

Q: Please discuss PSE's implementation of the KEMA recommendations concerning a proper OMS and its impact on PSE's ability to improve its reliability of service.

A: PSE requested KEMA provide an estimate of costs and benefits associated with installing an OMS and a supporting Geospatial Information System (GIS). This KEMA report dated February 13, 2008 documents that the total OMS project is estimated at **[Begin Confidential] XXXXXXX [End Confidential]** and the total costs of the GIS implementation is estimated at **[Begin Confidential] XXXXXXXXXXX** [**End Confidential**].[15] KEMA estimates that the reduction in outage duration due to automation, better management of information, and improvements in crew productivity would result in Net Present Value operational benefits of [**Begin Confidential] XXXX XXXX** [**End Confidential]**. When compared to the Net Present Value of the

[15] Second Revised PSE Response to Public Counsel Data Request No.131, Attachment A (Confidential).

[**Begin Confidential]** XXXXXXX [**End Confidential]** total costs (including annual O&M costs), the OMS project would result in [**Begin Confidential] XXX XXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX** [**End Confidential]**. KEMA also projects a [**Begin Confidential] XXXXXXXXXXXX** [**End Confidential]** in SAIDI as result of installing OMS. This information should be contrasted with PSE's response to Public Counsel Data Request 087, provided in January 2008, which stated that PSE had not implemented OMS in the past due to the costs associated with the need to install a GIS and that this project had a "lower priority relative to other requirements to provide needed energy delivery reliability and capacity." There is no evidence that PSE had considered or attempted to evaluate the costs and, most importantly, the benefits of installing OMS, prior to the Hanukkah Eve Storm and the subsequent KEMA reports.

Q: Is the installation of OMS by electric utilities unusual or atypical in your experience?

A. I have not done a national survey, but the installation and benefits associated with OMS are widely known to utilities. Based on my experience in reliability investigations and rulemakings, I know that all of the Maine, New Jersey and Pennsylvania electric utilities of any significant size installed OMS several years ago, most in the 2000-2002 period. In Washington, Avista installed an OMS that is built on GIS after the 1996 ice storm.[16] PSE itself attended a conference in 2007 and heard presentations by many

[16] This information was confirmed by PSE in response to Public Counsel Data Request No. 118.

utilities that had installed OMS, including Progress Energy (Florida and North Carolina), Black Hills Corp. (South Dakota), and Commonwealth Edison (Illinois).[17]

The Maine Public Utilities Commission described the implementation of GIS in Maine as follows:[18]

> In the PUC's review of utility performance during Ice Storm 1998, we noted that geographic information systems (GIS) proved a useful tool to a number of utilities as they recovered. Federal agencies assisting the State in its recovery from the Ice Storm disaster similarly highlighted the benefits of GIS for recovery from emergencies and protection of critical infrastructure. Accordingly, the PUC decided to expand our GIS capabilities and ability to coordinate GIS information with the state's public utilities. GIS comprises a set of computer-based analysis tools that integrate common database operations (query, statistical analysis) with geographic (or spatial) analysis, and visualization. GIS can relate and enable analysis of data from different data models and formats, to capture, manage, analyze, and output data with spatial characteristics. In addition to producing detailed, accurate and informative maps, it is a powerful tool for analysis. Utilities are increasingly using GIS for infrastructure management, service tracking, and outage management. Federal, State, and County emergency managers looked to the PUC for spatial analysis on utility issues during the ice storm and during the State's Y2k preparations, and renewed that interest in the immediate aftermath of the terrorist attacks of September 2001. Consumers are increasingly seeking specific information on services that are available to them in their own local area, information that can readily be provided using GIS technology and the internet. In 2001, we adopted a Commission Rule that requires all major utilities to provide service area and infrastructure maps and data to the PUC in GIS form, phased in over a period of several years to allow smaller utilities to develop GIS capabilities or make other appropriate arrangements. In adopting that Rule, we described a long-term goal to enable us to "maintain all records and utility information in electronic form, to streamline our regulatory process and to improve the efficiency of our oversight of public utilities in Maine" and pointed to GIS as a "very useful device" for that process. The PUC's stated purposes in adopting the Rule were "to enhance the ability of utilities to satisfy [the statutory requirement to provide "safe, reasonable and adequate facility and service"] and of the PUC to review the safety, reasonableness, and adequacy of utility facilities and service, to

[17] PSE Response to Public Counsel Data Request No. 491.

[18] Annual Report of the Maine Public Utilities Commission (2006), available at http://mainegov-images.informe.org/mpuc/staying_informed/about_mpuc/annual_report/AnnualReport2006-Final.pdf See page 12.

respond to the most frequent requests for service area information received by the PUC, and to facilitate our support of emergency management planning activities."

Furthermore, there is a great deal of research and data available on the benefits of OMS. A search of the Edison Electric Institute website for articles and presentations on OMS resulted in 54 documents, many of which are presentations by utility executives and consultants at EEI-sponsored conferences that describe utility OMS systems and their benefits in use for many years.[19] As a result, the fact that PSE had not confronted the need for or assigned the priority associated with an upgraded OMS and GIS to improve its reliability performance is disturbing.

Q: Have other state commissions evaluated major storm and emergency response practices for electric utilities and, if so, with what result?

A: Based on my experience in Maine, Pennsylvania, New Jersey, and my awareness of major storm reports and evaluations of major storm restoration events in Illinois, the District of Columbia, and South Carolina, there is a strong body of work dating back many years that identifies some of the same defects and problems that KEMA identified, particularly those associated with customer communications and coordination of information to the public and public officials. In my opinion, PSE should have been more aware of what could go "wrong" and should have been able to better handle its communications about the severity of the storm, the length of outage restoration, and

[19] See, http://www.eei.org/search/index.htm?search=OMS.

communicate more informatively and effectively with the public and public officials. I do not understand why the "best practices" identified by KEMA in its report should not have been known to PSE and integrated into its reliability projects and priorities.

Q: Can you provide examples of other state regulatory commission reports on major storm events that document the same generic problems that KEMA identified as applicable to PSE's storm restoration and communication processes that should have been known to PSE?

A: Yes. The State of Maine endured a dramatic and catastrophic Ice Storm in January 1998. The Storm resulted in outages that impacted over half the citizens of Maine and thousands of customers (including myself) were without power for over a week. In the largest public utility, Central Maine Power Co. (CMP), 37 transmission line segments stretching over 500 miles were without service. CMP had to replace more than 3,000 broken distribution poles and more than 1 million feet of cable/line. At the peak of the storm 52 percent of its customers were without power. The second largest utility, Bangor Hydro-Electric Co., suffered even more significant damage to its transmission system because one of its main lines suffered extensive damage with over a 5 mile stretch lying flat on the ground. The Maine PUC's investigation found that the widespread nature and severity of the damage overwhelmed most utilities' emergency plans and the PUC made recommendations designed to improve utility processes and response for future storms.[20]

[20] Maine PUC, Inquiry into the Response by Public Utilities in Maine to the January 1998 Ice Storm, Order, Docket No. 98-026 (December 29, 1998). Even at this time the Commission noted that GIS had proved to be a very useful tool to the electric utilities in their storm restoration efforts. See discussion at page 45. Clearly, GIS had already been installed in some form by the late 1990's by Maine electric utilities.

The PUC noted that GIS proved a "useful tool" in ice storm recovery.

In January 2003, another winter storm event occurred, which, although not as severe, resulted in another Maine PUC investigation.[21] In this investigation the PUC found that utilities had not fully implemented the recommendations that had resulted from the 1998 Ice Storm investigation. Much of the focus of the 2003 investigation and its ensuing recommendations was on the coordination and communication between the utility and local emergency management officials, including the need for more proactive communications with such officials on the part of the utility, the need for formal emergency coordination agreements with county emergency management agencies, the need for formal coordination agreements among the utilities, the need for a formal priority restoration matrix, written information filed with the commission on the location of emergency generators, etc. In short, many of the communication protocols and processes that KEMA identified in PSE's response to the Hanukkah Eve Storm were noted in the Maine investigations in 1998 and 2003.

In the fall of 2003, Tropical Storm Isabel hit Pennsylvania and other Mid-Atlantic states. On behalf of the Pennsylvania Office of Consumer Advocate, I participated in a Pennsylvania PUC proceeding to respond to an investigation of FirstEnergy companies in Pennsylvania concerning reliability of service.[22] During that investigation I reviewed the

[21] Maine PUC, Investigation into the Adequacy of Utility Services in Maine During Power Outages, Order, Docket No. 2002-151 (November 14, 2003). Available at the Maine PUC website: www.state.me.us/mpuc.
[22] Pennsylvania PUC, Investigation into Metropolitan Edison Co., Pennsylvania Electric Co., and Pennsylvania Power Co. Reliability Performance, Docket No. I-00040102 (Testimony of Barbara Alexander, June 21, 2004). This proceeding resulted in a settlement filed on September 30, 2004, subsequently approved by the Commission.

utility's call answering and customer communication protocols in handling this storm restoration effort. My testimony documented difficulties in customers attempting to contact the utility and obtain an estimate of restoration activity, as well as complaints from local emergency management officials on their inability to communicate with the utility. This investigation resulted in a settlement in which the Pennsylvania utilities promised to undertake a number of reforms, many of which addressed the same issues contained in the KEMA report to PSE.

The District of Columbia Public Service Commission (PSC) also investigated Pepco's response to Hurricane Isabel. The PSC found that the outage management system in use by Pepco had not worked properly and directed the utility to upgrade and make modifications to its OMS so that the system would respond and work properly for such a significant storm event in the future. Three areas of concern identified by the PSC related to the high volume call answering interface, the processing of momentary breaker operations, and the overall performance/throughput of the OMS. Pepco subsequently upgraded its OMS in 2004.[23]

These examples are intended to point out that the types of communication failures, as identified by KEMA, made by PSE in its Hanukkah Eve Storm response should have been anticipated by PSE. This supports my conclusion that the "best practices" identified by KEMA that were not implemented by PSE should be taken into

[23] D.C. Public Service Commission, Formal Case 982, Order No. 13381 (September 14, 2004). This Order and the D.C. Commission's 2004 Annual Report (see pages 18-19) describing the Isabel investigations and results can be accessed at the Commission's website: www.dcpsc.org.

consideration by the Commission in its decision as to whether to grant full recovery of the costs incurred by PSE.

Q: Did PSE promptly implement the KEMA recommendations concerning reforms to its Community Messaging System?

A: No. These reforms were delayed. Phase I will not be implemented until the end of the first quarter of 2008.[24] Several recommendations relating to providing more immediate outage information and estimated restoration times from Day 1 are categorized as "Under Consideration for Accomplishment by 2008-2009 Storm Season."[25] Many other recommendations about external communications and customer service improvements are categorized as "Under Consideration for Longer Term Initiatives."[26] This information suggests that PSE either has not or cannot respond promptly to the serious concerns raised by the KEMA report in these important areas.

Q. How should the Commission respond to your review of PSE's handling of the Hanukkah Eve Storm in the context of this base rate case?

A: I recommend that the Commission disallow the recovery of 5 percent of the $80 million costs associated with PSE's request for recovery of costs for the Hanukkah Eve Storm, equal to approximately $4 million. I fully acknowledge that this figure is not based on a specific dollar amount of imprudent expenditures. Rather, it is a fair approximation of PSE's failures to adopt OMS and the benefits that were identified in the KEMA analysis

[24] PSE Response to WUTC Data Request No. 48.
[25] PSE Response to WUTC Staff Data Request No. 54, Attachment A.
[26] PSE Response to WUTC Staff Data Request No. 54, Attachment A.

of the costs and benefits of OMS that I discussed earlier in my testimony. Moreover, this amount is intended to also reflect the defects in PSE's customer call center processes concerning restoration efforts, and PSE's failures to properly communicate with or integrate storm restoration activities with local emergency management officials. All of these concerns and lack of "best practices" are identified in the KEMA report. It is not fair to PSE's ratepayers for PSE to merely promise to "do better" next time or to invest in system processes and practices in the future (and presumably seek rate recovery for these new investments and costs) when improvements and investments should have been undertaken prior to the 2006 storms.

III. PSE'S SERVICE QUALITY PERFORMANCE AND STRUCTURE OF THE SQI

Q: First, describe the current SQI and PSE's recent performance.

A: The SQI was originally created in the stipulated settlement of the 1996 merger between Puget Sound Power & Light Co. and Washington Natural Gas Co. in Docket Nos. UE-951270 and UE-960195. The SQI was reviewed and modified in PSE's General Rate Case in 2002 in Docket Nos. UE-011570 and UG-011571. As a result of the 2002 rate case, the SQI was continued indefinitely beyond its original five-year term, some of the metrics were modified, and the total potential penalty amount was increased.

The current SQI contains 11 service quality performance metrics. There is a maximum penalty of $10 million that is applied in a predetermined formula when PSE fails to meet one or more standards. Exhibit No. ____ (BA-3) sets forth the current performance areas and performance standards that PSE must meet on an annual basis.

Also included in this exhibit are PSE's actual performance results between 1997 and 2007.

As Exhibit No. ____ (BRA-3) demonstrates, PSE has failed to meet the System Average Interruption Duration Index (SAIDI) standard of 136 minutes per customer per year in 2006 (214) and 2007 (167). This level of performance shows a significant deterioration from the performance baseline requirement equal to 57 percent in 2006 and 23 percent in 2007.[27] PSE's failure to meet the SAIDI benchmark has resulted in a penalty of $1 million in 2006 and $513,000 in 2007. Additionally, PSE has routinely failed to meet the Overall Customer Satisfaction benchmark of 90 percent since 2000, but there is no penalty attached to this performance measure. PSE's annual service quality reports filed with the Commission also indicate that the company has met the annual average call center performance standard of answering 75 percent of the calls that seek to speak with a customer representative within 30 seconds. PSE has reported their annual performance results for 2005, 2006 and 2007 at exactly 75 percent, the minimum performance standard.

Q: Do you recommend any change in the overall penalty dollars at risk for PSE's compliance with the SQI?

A: While I do not recommend any structural change to the SQI design, I do recommend that the total dollar amount of penalties be increased to reflect the revenue growth that PSE has experienced since the penalty was increased from $7.5 million to $10 million in 2002.

[27] The 2006 percentage deterioration was calculated as (214-136) ÷ 136 = .573. The 2007 percentage deterioration was calculated as (167-136) ÷ 136 = .228.

PSE's retail jurisdictional revenues grew from $1.9 billion in 2002 to over $3 billion in 2007.[28] I recommend an increased total penalty amount of $15 million be applicable to the SQI metrics. This represents approximately 0.5 percent of these retail gas and electric revenues and continues the historical approach to establishing a penalty level that reflects PSE's revenues. After all, if the penalty dollars do not increase to reflect the growth in revenues there is a risk that PSE could consider penalty dollars as "worth" the cost of failing to deliver reasonable service quality and reliability to its customers. This $15 million should be allocated equally to the 10 SQI metrics ($1.5 million per metric) that carry the risk of penalties for the failure to meet the annual standard. The penalty dollars should be calculated in the same manner as in the past, but the dollars per point of deterioration should be increased by 50 percent to reflect the increased total penalty dollars at risk.

Q: With respect to the failure to meet the SAIDI performance standard, do you have any comments on PSE's explanation for this failure?

A: Yes, I do. SAIDI is calculated by excluding "major storms." The definition of "major event" used by PSE for calculating SAIDI and System Average Interruption Frequency Index (SAIFI) excludes outages due to an event that results in more than 5 percent of PSE's customers experiencing an outage, as well as those additional days when those

[28] As reflected in PSE's 2004 SEC Form 10-K Filing on March 1, 2005 and PSE's 2007 SEC Form 10-K filing on February 29, 2008.

affected customers have service restored. This definition of "major event" was included in the original SQI.

However, this definition of "major event" is different from that used to trigger PSE's ability to defer and seek later recovery of major storm damage costs. The SQI definition allows a much greater range of storms and storm events to be excluded from SAIDI and SAIFI.[29] Furthermore, compared to the definitions used in other states to calculate SAIDI and SAIFI, PSE's definition is very liberal, in that more events can be excluded from the measured performance results. For example, in Michigan,[30] Pennsylvania,[31] and New Jersey[32] the reliability rules and performance standards allow for major event or major storm exclusions only when 10 percent of the utility's customers experience an outage due to the event or storm. Therefore, PSE's performance with regard to reliability of service, as reflected in their SAIDI performance, deserves to be viewed as a serious failure.

Q. How does PSE explain its recent failure to meet the SAIDI standard?

A: PSE has not undertaken a formal analysis of the "root causes" of the performance standard failures. The company has typically blamed weather-related events that do not qualify as "major events" as the cause of this failure. PSE's 2006 System Performance

[29] PSE does not identify the number of minutes and outage events that are excluded from its calculations of SAIDI and SAIFI in its annual service quality reports. I recommend that it do so in the future.
[30] 2004 MR 3, R 460.702 (eff. 2004). See definition of "catastrophic conditions." Available http://www.state.mi.us/orr/emi/admincode.asp?AdminCode=Department&Dpt=LG&Level_1=Public+Service+Commission
[31] 52 Pa. Code §57.192. See definition of "major event." Available at http://www.pacode.com/secure/data/052/chapter57/subchapNtoc.html
[32] See N.J.A.C. 14:5-7.2. See definition of "major event."

Annual Review[33] describes the abnormal number of weather events in 2006, stating that the same number of localized non-major weather related events occurred in 2006 compared to 2003-2005 combined. The System Performance report then states that "[o]nce we've reviewed our response to these weather events and evaluated what can be done to modify sections of our electric system to improve performance, we will be considering infrastructure additions and modifications."[34] The 2007 Service Quality Annual Report points to the wind storms in January 2007 that did not meet the "major event" exclusion criteria and so adversely impacted the annual SAIDI results.[35]

Despite this statement in the 2006 System Performance Programs Report, there is no evidence that such analysis or targeted additions and modifications were actually identified or implemented. Furthermore, this same report documents that the vegetation management program (tree trimming, etc.) targeted fewer distribution and transmission miles in each of the recent years (2,198 miles in 2004 down to 1,656 miles in 2006).[36] It is certainly possibly that a formal root cause analysis could conclude that the reductions in the vegetation management program contributed to the SAIDI performance failures.

Q: Has PSE prepared a compliance plan to assure that it will meet the SAIDI standard in the future?

[33] PSE Response to Public Counsel Data Request No. 81, Attachment C is the 2006 report. See also PSE Responses to Public Counsel Data Requests Nos. 97, 98, 103 [No "additional analysis" in recent years]; and PSE Response to Public Counsel Data Request No. 136.
[34] PSE Response to Public Counsel Data Request No. 81, Attachment C, p. 6.
[35] The 2007 Service Quality Report was provided in PSE response to Public Counsel Data Request No. 84, Attachment A (First Supplemental Response), p.8.
[36] PSE Response to Public Counsel Data Request No. 81, Attachment C, p.8.

A: No. PSE has not prepared a formal compliance plan to achieve compliance with the SAIDI benchmark outside of preparing some graphs about various outage types and noting that "non-storm tree-related outages" may have contributed to failures. This is not an acceptable response in my opinion, particularly since PSE has now missed the applicable performance standard for two years in a row by a significant margin.

Q: What is your recommendation with respect to PSE's failure to meet the SAIDI standard for two consecutive years?

A: The fact that PSE has a very generous exclusion rule for "major storms" in the SAIDI and SAIFI calculations suggests that the recent failure to meet SAIDI for two years in a row is even more significant. I am particularly concerned that PSE has not developed a formal plan to assure compliance and that their analysis of this failure to date is superficial and not designed to assure future compliance. I recommend that any failure to meet the annual performance standard for any metric should require PSE to submit an enforceable compliance plan that demonstrates how the Company will meet the standard the following year. This compliance plan should have specific milestones and reporting requirements to demonstrate progress in meeting the standard.

Second, the penalty structure should reflect a higher level of penalty when the performance standard is not met for two consecutive years. I recommend that the otherwise applicable penalty dollars be doubled for the second consecutive failure. Any such penalty that is incurred pursuant to this proposal would be in addition to the maximum $15 million penalty at risk. If this additional penalty had been in place for 2007, PSE would have incurred an additional penalty of approximately $500,000. I

recommend that PSE be penalized at least this amount either through a disallowance from PSE's revenue requirement in this proceeding or as a separate one-time penalty payment to customers. This recommendation reflects PSE's failure to meet SAIDI for two consecutive years and because PSE's response to the 2006 and 2007 failure to meet the standard has been inadequate. This penalty or disallowance is appropriate due to PSE's failure to take the continuing failure to meet the SAIDI standard seriously and develop and implement a formal compliance plan.

Q: Do you have any recommendation for an additional Customer Guarantee Payment that addresses the need for an incentive to restore power during major storms?

A: Yes. The current SQI does not provide any incentive to PSE to restore power promptly during major storms because any significant storm results in those events and outage minutes are excluded from the SAIDI and SAIFI calculations. I acknowledge the purpose of these exclusions, but the failure to meet SAIDI in the last two years and my testimony concerning PSE's lack of investment in certain "best practices" for emergency storm preparedness and restoration processes suggest that an additional approach be considered to create an incentive for prompt restoration of service after storm outages. In other words, there is no performance standard in effect by which customers can be assured that service will be restored promptly when there is a "major" storm or other outage event excluded from the measurement of SAIFI and SAIDI. From the customer's perspective, an outage due to a local transformer failure or common thunderstorm is just as serious as an outage that occurs during a "major" storm.

I recommend that the Commission add another provision to the existing Customer

Guarantee Program[37] that is based on a requirement in effect in Michigan.[38] PSE should be required to provide an individual customer with a credit of $50 when power is not restored within 120 hours (five days) after an interruption of service that occurs due to a major storm. Any payments for customers pursuant to this policy should not be recovered from ratepayers. Any exception to this policy should only occur when PSE has sought and obtained a specific waiver from the Commission due to an extraordinary event that prevented the compliance with this policy.

Q: Does PSE track Momentary Outages or MAIFI (Momentary Average Interruption Frequency Index)?

A: No. PSE does not track the momentary outages.[39] Momentary outages impact power quality and are often a source of customer complaints about reliability of service because these types of outages cause home electronics to flicker or reset. MAIFI is a recognized metric for reliability of service and a recognized standard for defining and tracking this metric has been recommended by IEEE.[40]

Q: Do you recommend that PSE track and report MAIFI results?

[37] PSE's existing Customer Guarantee Program provides a $50 credit to customers when PSE fails to keep an appointment. However, even this obligation is waived during major outage events.
[38] 2004 MR 3, R 460.744 (eff. 2004). Available http://www.state.mi.us/orr/emi/admincode.asp?AdminCode=Department&Dpt=LG&Level_1=Public+Service+Commission.
[39] PSE Response to Public Counsel Data Request No. 94.
[40] IEEE was previously an acronym for Institute for Electronics and Electronic Engineers, but now uses IEEE as its formal name. IEEE develops standards through a consensus process through its members which are then voluntarily referenced or adopted by states and other entities on a wide range of matters. See www.ieee.org. Unfortunately, most of IEEE publications and standards are only available to its members.

A: Yes. I recommend that PSE track and report MAIFI where SCADA[41] systems so enable this data to be obtained, although I do not recommend that any penalty dollars be attached to a specific performance level at this time.

Q: Does PSE analyze and determine the root cause of customer complaints concerning reliability of service?

A: It does not appear that the Company does so. PSE's identifies customer complaints about reliability or quality of service and lists them in its annual Electric System and Reliability Reports. However, there is no evidence that this data is analyzed or "mined" for information that then feeds back into the Company's reliability programs and policies.[42] Rather, the Company's focus appears to be limited to responding to the individual complaints, which is of course important, but not sufficient to assure that the Company's reliability programs are sufficient or properly targeted.

Q: What is your recommendation with regard to PSE's analysis of customer complaints concerning reliability of service?

A: I recommend that PSE's annual reliability reports do more than merely list customer complaints about reliability of service. In addition, PSE's reports should reflect an analysis and identification of patterns or practices with respect to customer complaints.

Q: Please discuss PSE's call answering performance.

[41] The term "SCADA" refers to Supervisory Control and Data Acquisition technology that is installed at substations so that the operational state of the substation can be remotely determined. According to PSE's Response to Public Counsel Data Request No. 132, only 137,000 customers are served by substations without SCADA.
[42] PSE Response to Public Counsel Data Request No. 95.

A: For 2005, 2006, and 2007, PSE reports that it has met the annual average call answering standard of answering 75 percent of the calls that seek to speak with a customer representative within 30 seconds. That is, in each of those years, PSE has reported their performance results at exactly 75 percent. PSE has a high rate of calls handled by the automated Voice Response system: 48 percent in 2006 and 42 percent in 2007 of all incoming calls were handled through the automated menu and did not require an "answer" by a representative.[43] This should allow PSE to answer more calls at a faster rate, but the range of monthly call answering performance is very wide—and is particularly poor in the early months of the year (winter) and much better in the summer. For example, in early 2007 PSE only answered 39 percent (January), 48 percent (February), and 50 percent (March) of the calls within 30 seconds. The same pattern of very poor performance in these months is evident in 2006.[44]

PSE staffs its call center with a mixture of "on-site" representatives and those that work from their homes. A monthly average of 165 representatives was physically present at the call center in 2007. A monthly average of 19 worked from home. However, the number of those who worked at home increased each month in 2007, reaching 27 per month for the period August through December 2007.[45]

PSE also tracks additional call answering performance metrics, but these metrics are not part of the SQI, nor are they included in PSE's annual service quality reports to

[43] PSE Response to Public Counsel Data Request No. 82, Attachment A. See also PSE Response to Public Counsel Data Request No. 138.
[44] PSE Response to Public Counsel Data Request No. 652, Attachment A.
[45] PSE Response to Public Counsel Data Requests Nos. 106, 492, and 624.

the Commission. PSE records the Average Speed of Answer for customer calls, e.g., the average number of seconds or minutes to answer each call. In 2006 this was 50 seconds and in 2007 this was 63 seconds, indicating a deteriorating level of service quality that is not reflected in the annual average of calls answered over 30 seconds. Finally, PSE has a fairly high "abandonment rate," the percentage of callers who abandon their call after joining the queue: 5.65 percent in 2006 and lower at 3.8 percent in 2007. PSE does not track or know the "busy out rate," the rate at which callers encounters a busy signal and thus are unable to even get into the queue.[46] This is important because it is possible that during busy hours, such as during widespread outages, customers cannot get through to PSE at all and even join the queue. These calls are not being captured in the call answering performance areas that are measured in the SQI. PSE can obtain this information from the phone service provider and it is a metric that is included in some service quality performance plans elsewhere.

Q: What recommendation do you make with respect to how the SQI measures call center performance?

A: With respect to metrics that measure call answering performance, I recommend that the current metric be changed from an annual standard to a quarterly standard. This would require PSE to answer 75 percent of customer calls within 30 seconds for each quarter. Each quarter's performance should carry a maximum penalty equal to one-fourth of the annual penalty at risk for this performance area. It is clear that PSE's performance

[46] PSE Response to Public Counsel Data Request No. 82, Attachment A. See also PSE Response to Public Counsel Data Request No. 83.

reflects significant swings in performance level and that the Company is allowing poor performance in early months to be offset by better performance later in the year when the monthly performance indicates that the annual standard will not be met. Customers deserve a more acceptable level of performance throughout the year. Finally, I recommend that PSE be required to report on its monthly and annual call abandonment rate and busy out rate as part of its annual SQI report, although I do not recommend any penalty dollars associated with these reporting metrics at this time.

Q: How does PSE return the penalty dollars incurred when the company fails to meet one of more of the SQI performance standards?

A: Pursuant to previous approval by the Commission, customers are informed of the annual service quality results and the dollar amount of any penalty that results for the failure to meet a performance standard in a PSE "report card" to customers. The penalty dollars are credited to the Electric Conservation Service Tracker as an offset to the tariff rider account.

Q. Do you recommend any change in how SQI penalty dollars are returned to customers?

A. Yes. I recommend that SQI penalty dollars be returned directly to customers in the form of a one-time bill credit that is appropriately identified on customer bills as a result of a service quality failure. PSE's customers should see the results of the SQI performance as a direct reduction in their overall rates. While I do not suggest that anything incorrect has occurred in the prior method of handling SQI penalty dollars, it is appropriate that the customers be informed of the impact of SQI failures directly since one of the key

purposes served by the SQI mechanism is to link the rates that customers pay with PSE's customer service performance. Furthermore, the current method of applying any SQI penalty dollars to the Electric Conservation Service Tracker is complicated and confusing because of the need to assure that shareholders and not ratepayers bear responsibility for any SQI penalty payments to customers.

Q: Does PSE track and properly monitor the performance of their contractors who provide new installation services to customers?

A: PSE does track customer satisfaction with its service provider contractor services and reports these results to the Commission annually in a Service Provider Report. The results of customer satisfaction with new customer construction dropped dramatically in 2007 compared to 2006, which PSE attributes in part to the volume of storm recovery work that took precedence over new service installation. PSE has developed customer satisfaction level objectives or targets for their contractors, but these targets were not met in 2007. Furthermore, the target satisfaction levels are different, 83 percent for the gas contractor and only 75-78 percent for the electric construction contractor.[47] The current SQI, in contrast, requires that the transaction-based customer satisfaction survey results show a 90 percent customer satisfaction performance. In fact, when the SQI was modified as part of the 2002 PSE rate case settlement, all three customer satisfaction measures were set at 90 percent. However, the survey results for new customer

[47] PSE Response to WUTC Staff Data Request No. 164.

installation reflected in these Service Provider reports are not reflected in the SQI customer satisfaction transaction surveys.[48]

Q: What is your recommendation with respect to PSE's customer satisfaction performance for new installation of service performed by its contractors?

A: I recommend that PSE be required to include penalties in its outside contractor agreements so that the failure to meet customer satisfaction targets is linked to payments to the contractors. With respect to the proper customer satisfaction targets, there is no reason why these satisfaction targets should be any different than those already applicable to PSE in the SQI for its field operations, i.e., 90 percent. PSE should then report on any penalties incurred in its outside contractor agreements to the Commission as part of the current Service Provider Reports that are filed annually. Any penalty dollars paid for substandard contractor performance will result in lower costs incurred by PSE for the contracted services, in effect providing a benefit to PSE because the expected costs for these contracted services are reflected in the revenue requirement. In the event that contractor performance results in penalties, any penalties should be added to any penalty dollars incurred by PSE under the SQI and paid to customers. This approach will ensure that shareholders bear the risk of any poor performance by PSE's contractors.

In addition, I recommend that the current SQI customer satisfaction survey for PSE's field performance include a representative sample of new installation service customers reflected in these service provider contracts beginning in 2008.

[48] PSE Response to WUTC Staff Data Request No. 187.

Q: Have you reviewed PSE's performance with respect to Gas Safety and Electric Safety Response Time?

A: Yes. PSE is required to respond to Gas and Electric safety calls and appear on site within 55 minutes on average over an entire year. In other words, PSE's actual performance will naturally vary, but the average response time during the entire year must be 55 minutes or less. I asked PSE to restate their recent performance using a different performance standard that is used in other service quality plans with which I am familiar, that is, to provide the percentage of response calls in which PSE arrived within 60 minutes. Based on this response, it appears that PSE responded to gas safety calls within 60 minutes in 2007 only 86 percent of the time and there is a noticeable deterioration from 2005 through 2007.[49] PSE's response to electric safety calls shows a similar deterioration in performance.

Q: Do you have a recommendation for a change in the standard for Gas and Electric Safety Response Time in the SQI?

A: Yes. I think that the annual average of 55 minutes allows a much broader range of acceptable performance than should be permitted for responding to safety calls, particularly with natural gas service. I recommend that the performance standard require PSE to answer 95 percent of such calls within 60 minutes. According to one natural gas

[49] PSE Response to Public Counsel Data Request No. 672, Attachment A.

utility in Pennsylvania, this is an "industry average" for natural gas utilities. In addition, this standard is in effect for Massachusetts natural gas utilities.[50]

IV. PSE'S INCENTIVE PAYMENT PROGRAM IS FLAWED BECAUSE OF THE MANNER IN WHICH SERVICE QUALITY PERFORMANCE IS REFLECTED IN THE PROGRAM

Q: Please describe PSE's proposed incentive compensation program for its executive or management employees.

A: In his testimony, Mr. Thomas Hunt, on behalf of PSE, seeks rate recovery for the incentive payments provided to its employees. PSE's incentive payment program for their executives contains a financial goal based on earnings per share. This portion of the goal makes up 70 percent of a person's incentive opportunity. An individual or team goal makes up 30 percent of the incentive opportunity. Under PSE's incentive program design, service quality performance impacts both the financial and the individual/team goal by modifying the award up or down. If 9 of 11 SQI metrics are met, 90 percent of the incentive is earned. If 10 of 11 of the metrics are met, 100 percent of the incentive is earned.[51]

Q: Do you approve of the design of this incentive compensation plan with respect to the impact of service quality performance?

[50] Columbia Gas of Pennsylvania tracks its performance in answering natural gas safety calls and reports that it arrives on site in 60 minutes or less 95 percent of the time. [Data response issued in pending rate case before the Pennsylvania PUC, Docket No. R-2008-2011621]. The Massachusetts Commission has established a performance standard of 95 percent response within 60 minutes applicable to all natural gas utilities in its Order establishing Service Quality Standards in 2001 in Docket 99-84, pages 39-40. See http://www.mass.gov/Eoca/docs/dte/electric/99-84/masterorder.pdf

[51] See PSE Response to Public Counsel Data Requests Nos. 437 through 442 for a description of the operation of the incentive payment program.

A: No. PSE executives should not earn any incentive payment if the utility fails to meet any of the SQI performance requirements and certainly should not earn 90 percent of the available incentive if 9 of the 11 metrics are met. In 2006 and 2007 PSE failed to meet the SAIDI standard and paid a penalty of $1 million and $0.5 million, respectively. PSE's executives should not be rewarded for this performance. I recommend that any rate recovery of salaries and incentive payment reflect a removal of any costs associated with this incentive payment program. Mr. Michael Majoros, on behalf of Public Counsel, also makes recommendations about PSE's proposal to include incentive payment in its revenue requirement.

V. PSE'S PROPOSALS TO DRAMATICALLY INCREASE FIXED MONTHLY RESIDENTIAL CUSTOMER CHARGES

Q: Please describe PSE's proposals to increase fixed monthly customer charges for residential customers as part of its rate design and cost allocation proposals in this proceeding.

A: PSE Witness Janet Phelps proposes an increase in the fixed monthly customer charge for gas service from $8.25 to $18.00 and David Hoff proposes an increase in the fixed monthly customer charge for electric service from $6.02 to $9.00. The proposal to increase the gas monthly charge to $18.00 would result in a 118 percent increase from the current monthly charge. The proposal to increase the electric monthly charge to $9.00 would result in a 50 percent increase from to the current monthly customer charge. Both witnesses claim that these higher fixed monthly charges reflect a proper allocation of costs, that they send the proper "price signal," that the resulting bill impacts are fair and

reasonable, and that customers will better understand their utility bill and the basis for their charges with such a change.[52]

Q: Does your testimony propose a fixed monthly customer charge based on an analysis of PSE's cost of service?

A: No. My testimony focuses on the policy issues and bill impacts associated with PSE's proposals for these fixed monthly customer charges. Mr. Glenn Watkins testifies on behalf of Public Counsel as to the proper or appropriate level of fixed monthly customer charges.

Q: Please summarize your response to the dramatic increases in fixed monthly customer charges proposed by PSE.

A: It is not appropriate, fair, understandable, or necessary to increase fixed customer monthly charges for residential customers in the amount or to the degree proposed by PSE. Mr. Hoff and Ms. Phelps attempt to portray their proposals as beneficial to customers and in line with the manner in which other services are purchased. However, in my opinion, the real intent of PSE's proposal is to ensure the utility of more certainty in revenue recovery and ability to earn its desired level of profits.

I discuss in more detail below the impact PSE's proposed fixed monthly charges would have on customers with low, medium, and high usage levels. This analysis will

[52] See Hoff Direct at 35-51. For example, Mr. Hoff states that paying higher fixed monthly charges will benefit residential customers because the bill will be more stable and more predictable. [at 23] See Phelps Direct at 41-49.

show that high fixed customer charges do not send proper "price signals" to customers. Indeed, the highest users would see the most beneficial bill impact because the higher monthly charge is offset by lower volumetric charges. As a result, there is certainly no price signal to use less with this proposed approach to rate design. Furthermore, residential customers with lower than average usage will experience higher bills. PSE's proposal turns the notion of what most customers understand to be the basis for their bill on its head—under PSE's proposal, the more you use, the less you pay and the less you use, the more you pay. Many lower usage customers would see this as unfair and I expect that customer dissatisfaction with such a rate structure would be significant.

Q: Please discuss in more detail the impact of PSE's proposed fixed monthly customer charges on residential customers under various usage levels.

A: If approved, the impact of PSE's proposed increased monthly customer charge (even taking into account the lowered distribution usage rate when costs are shifted to the fixed monthly charge) would result in lower usage customers seeing a higher bill impact compared to higher usage customers. This is particularly true for the dramatic increase in the gas customer charge to $18.00. In PSE's response to Public Counsel Data Request No. 60, the Company provided an analysis of bill impacts reflecting the combination of their proposed rate increase and the new customer charge, and the transfer of revenues/costs from the usage side of the bill to the fixed charge portion of the bill. The bill impacts for low, average, and above average usage customers were compared to the bills that would result from an equal percentage application of the proposed rate increase. The Company's response showed that a higher than average usage electric customer

would see a total annual bill decrease of almost $12.00, but a lower than average usage electric customer would see a $16.29 annual increase. A high usage gas customer would see an annual bill decrease of $29.39, but a lower than average usage gas customer would see a $26.24 annual bill increase. The range of these bill impacts is significant and should be relied upon to reject this proposal. I have attached PSE's response to Public Counsel Data Request No. 60 showing these bill impacts on electric customers as Exhibit No. ___ (BRA-4). I have also attached PSE's response to Public Counsel Data Request No. 483 showing bill impacts on natural gas customers as Exhibit No. ___ (BRA-5).

Q: What impact will this proposed rate design change have on low-income customers?

A: PSE's response to Public Counsel Data Requests Nos. 60 and 483 also includes the impact of the proposed customer charge on "bill assisted" customers. On average, low-income customers use less electricity and gas than higher income customers. This fact is documented in national and regional studies of energy usage and income.[53] PSE does not have much data with respect to its low-income customer base and their usage profile because the only data they have is for those customers identified as participating in LIHEAP and PSE's HELP low-income rate assistance program. That data is not necessarily representative of all low-income customers due to the low penetration rate for

[53] The U.S. Energy Information Administration gathers data on residential energy consumption and household income every two years. This Residential Energy Consumption Survey shows that average household consumption of both electricity and natural gas by LIHEAP eligible customers (those with income at or below 150 percent of federal poverty guidelines) is lower than other usage by non-LIHEAP eligible customers in every Census Region. In the West region, LIHEAP eligible customers on average use 19 percent less for electricity and 7.9 percent less for natural gas.

these programs and the fact that the electric HELP customer database is heavily influenced by the presence of electric heat, i.e., it is likely that the higher use low-income electric heat customers are overly represented in HELP. Thus, while PSE's charts might show the impact of the proposed increased customer charge on low-income customers that participate in HELP, the charts may not reflect the impacts on low-income customers generally. Nonetheless, the bill assisted low-income gas customer will see an even higher bill impact than the non-low-income higher usage customer in the annual amount of $38.28. Mr. Hoff's charts in his testimony show that 60 percent of the low-income gas customers (i.e., those that receive HELP) will see higher bills and pay out $150,000 more than they would have paid compared to a rate design that spreads the rate increase in an equal application, while 40 percent of this same group will pay $95,000 less. [54] As a result, PSE's proposed rate design change will result in a net $55,000 increase in gas revenues from low-income customers – those least likely to have the ability to pay higher prices for essential utility service. When one realizes the HELP program penetration is around 10-12 percent, it is clear that the impact on non participant low-income households would be substantial.

The PSE charts for electric low-income customers show that HELP customers with above average usage will see a decrease of $17.05, and those with a below average usage will see an increase of $12.47, a level of increase that is less than the non-low-income residential customer profile. Of course, as I indicated earlier, the HELP

[54] Exhibit No. ___ (DWH-1T), p. 46.

customers in this sample have a high penetration of electric heat which would substantially increase their electric usage compared to non-electric heat customers.

Q: Do you agree with Mr. Hoff that PSE's customers will understand and accept the significant increase in fixed customer charges?

A: No. In fact, when other gas utilities have proposed significant changes in rate design to recover more revenues through fixed monthly charges or other variations on this theme, there has been a strong adverse public reaction. Customers will interpret this change in their utility bill as an attempt to "punish' them for lowering their usage.

When the National Fuel Gas Distribution Co. (NFGD) in Pennsylvania proposed in a 2006 rate case to increase the monthly customer charge from $12.00 to $20.64, as well as to significantly increase the volumetric charge associated with the first block of usage on the utility's current rate design, customers reacted in a very negative manner. While NFGD presented this rate design proposal as one to stimulate their investment in conservation, customers were not impressed. In public meetings and letters to the Pennsylvania Commission, consumers opposed this proposal, stating they would be "punished for trying to conserve." The reaction was so adverse that the utility removed this proposal from their base rate request and settled the case without any increase in the customer charge.

Q: What signal is being sent with regard to conservation with respect to proposals to significantly increase monthly customer charges and reduce volumetric rates?

A: The obvious signal when a utility seeks to increase the fixed monthly charge and then remove the corresponding revenues from volumetric rates is that conservation is not

important, because conservation or lower usage will result in a higher bill compared to the customer's current usage. Since rate design is a "zero sum" game, an increase in the fixed customer charge will reduce the applicable volumetric charge, assuming no other rate change is pending. However, when customers reduce their usage through conservation it is only the energy or volumetric charge that is impacted. The lower the energy charge, the lower the incentive or savings from conservation. In fact, customers with the most usage will see a bill decrease when compared to a bill resulting from traditional design. PSE's proposal is not appropriate and would undermine efforts to educate its customers about the importance of energy efficiency and conservation.

Q: What about those customers who do use more than average, and who are no doubt putting additional costs on the system to support their additional usage in terms of electric generation supply and natural gas supply, as well as investments in new distribution facilities? Shouldn't PSE address this issue?

A: It would be reasonable for PSE to explore changes to its rate design to send the proper "price signal" to higher than average usage customers. This might involve an analysis of various rate design changes, such as those that charge a higher volumetric rate for higher tiers of usage levels, such as already exists for PSE's electric service rate design. PSE might also evaluate changes to how it bills its seasonal use customers. Alternatively, PSE could conduct an evaluation of its current line or main extension cost recovery policies. However, PSE has not evaluated any alternatives to its proposed increase in the fixed

monthly charge.[55] This is true even though PSE acknowledges that higher usage customers impose higher generation supply costs, both in total and on a per kWh basis.[56] As a result, it is not appropriate to conclude that PSE's proposal, which has focused solely on increasing the fixed monthly customer charge, is a "good" or even "acceptable" solution to some of the reasons raised by PSE in its justification for this proposal.

Q: When a utility seeks to shift revenues from volumetric charges to fixed monthly charges, what is the ultimate result in terms of who bears the risk of a utility's ability to earn a fair rate of return?

A: PSE's proposal to increase its fixed monthly customer charge is an effort to shift risk from its shareholders to its customers. However, low use or average use residential customers typically cannot respond to these "price signals" in the same manner or with the same expertise as PSE and its managers. In other words, customers cannot necessarily abandon installed heating systems, replace heating systems or other appliances, remodel their homes, or otherwise assume the financial burden to make significant changes in their lifestyle. While I agree that customers will eventually respond to significant changes in utility prices, most customers, particularly those who are low or moderate income, cannot make such immediate or expensive investments or changes. For many low-income customers, their energy usage is not a discretionary portion of their household income. Their lack of discretionary income means that they

[55] PSE Response to Public Counsel Data Request No. 56, ["No alternatives to PSE's proposals were pursued."]. See also PSE Response to Public Counsel Data Request No. 78 [PSE does not know how many "summer" homes it serves], PSE Response to Public Counsel Data Request No. 80 [PSE has not investigated a seasonal use customer charge or a seasonal use rate schedule.].
[56] PSE Response to Public Counsel Data Request No. 58.

are "stuck" with the housing condition, heating system, and appliances that are already present in their dwellings. This is, of course, only heightened when the family is renting a home or apartment where the landlord is in charge of the heating systems and most of the appliances. In rental units, it is the customer or renter who sees the rate design and not the landlord.

By contrast, the utility has the expertise to manage its investments and purchases of electric or natural gas supply to ameliorate this risk. A utility can adopt policies that impact its ability to recover the costs of investments to serve new customers (particularly with the costs imposed on new customers for line extensions and new mains). A utility can, and PSE does, employ sophisticated means to manage its natural gas and electricity supply portfolio, such as investments in derivatives and other financial instruments to shift the risk of weather and load growth, as well as to propose and be assured of full cost recovery for any energy efficiency and conservation programs. PSE should not be allowed to shift significant costs and risks to residential customers with this proposed increase in monthly charges.

Q: Ultimately, how can PSE respond to any development that threatens its ability to earn a fair rate of return?

A: PSE controls the timing of its base rate cases, at which time the actual sales figures are investigated and approved as the basis for its rates and rate of return.

Q: Since PSE's customer base is growing, does PSE bear any long term or significant risks with respect to its opportunity to earn a fair rate of return?

A: PSE's argument that fixed customer charges are needed to protect its revenue stream do not appear reasonable in light of the other statements of PSE witnesses in this case that its customer base is growing and new investments are being made to respond to this growing customer base. For example, Ms. McLain testifies that PSE has seen significant growth in its customer base. From 2003 through 2006, PSE's electric customers increased by 6.1 percent and PSE's natural gas customers increased by 11 percent, far in excess of the national growth rate of electric and natural gas utilities.[57]

Q: Do you agree with PSE's interpretation of the monthly customer charge rates charged by other Washington gas utilities or other gas utilities identified in Mr. Hoff's and Ms. Phelps' testimony and exhibits?

A: No. Mr. Hoff presents a chart that lists the fixed monthly charge of Washington electric utilities, Exhibit No.____(DWH-6). He claims that this list shows that most Washington electric utilities charge a higher monthly charge than the $6.02 charge imposed by PSE. However, all of the investor owned utilities charge a lower monthly charge. Those utilities that impose a higher electric monthly charge are smaller publicly owned utilities whose rate structure and rate design is very likely a reflection of their size and other factors not applicable to PSE. According to this chart, PacifiCorp charges $5.25 per month, Avista Utilities charges $5.50 per month and Tacoma Power, a utility near to PSE's service territory, charges $5.50 per month. Seattle City Light charges $2.92 per month. Clearly, the bulk of the electric customers in Washington experience lower

[57] Exhibit No. ___ (SML-1CT) p. 6.

monthly charges than those already charged by PSE to its residential customers.

Ms. Phelps includes a comparison chart of gas utility fixed monthly charges in Exhibit No.___ (JKP-11). Almost no gas utilities charge a monthly fee that even approaches the $18.00 per month fee proposed by PSE; 72 percent of the gas utilities charge a monthly fee of $10.00 or less and 52 percent of the listed utilities charge a monthly fee of $9.00 or less. Clearly, there is no basis for looking to this chart of gas utilities outside of Washington to justify Mr. Phelps' proposal to charge $18.00 per month to residential customers for essential gas service. Furthermore, Avista Utilities in Washington charges only $5.50 per month and NW Natural charges $5.00 per month. It is highly unlikely that the cost to serve between these other Washington gas utilities could be so dramatically different so as to justify the disparity in monthly charges as proposed by PSE.

VI. PSE's LOW-INCOME PROGRAMS: DESIGN AND FUNDING

Q: Please summarize PSE's proposals with respect to the funding of its low-income programs in this rate case.

A: Mr. Eric Markell's testimony proposes to increase the ratepayer funding for PSE's low-income bill assistance program—HELP—in an amount equal to the percentage of the rate increase for the residential electric and natural gas class that is approved by the Commission. PSE calculated this increased HELP funding as $791,584 based on its original filing. This amount would change to reflect the actual rate increase approved by

the Commission under PSE's approach.[58] According to Mr. Hoff, the current budget cap for the electric HELP program is of $6,717,000.[59] With regard to the HELP assistance for gas customers, PSE is proposing an additional amount of increase that will only be applicable if the Company's proposals for an increased fixed monthly customer charge up to $18.00 per month is approved. While no specific level of funding increase is identified, Mr. Markell states that the current annual cap of $3,536,000 would be increased to reflect not only the overall rate increase, but be based on an analysis of the typical bill impact on low-income customers resulting from the increased basic monthly charge.[60]

Q: Did PSE propose any change in the funding level for low-income energy efficiency or conservation programs?

A: No.

Q: First, do you agree that PSE's recommended approach to the funding level for low-income programs should be limited to a percentage increase in rates for the residential class?

A: I understand that this approach has some precedent in prior negotiated settlements of previous base rate cases and I acknowledge that such an approach at least recognizes the ongoing needs of low-income customers in an era of rising energy prices. However, such

[58] PSE Response to Public Counsel Data Request No. 61.
[59] PSE Response to Public Counsel Data Request No. 64 ["The current cap was established in WUTC Docket No. UE-071769 and was based on a negotiated settlement approved by the Commission in WUTC Docket Nos. UE-060266 and UG-060267. The initial annual cap was established by Commission approval in WUTC Docket Nos. UE-011570 and UG-011571. This initial annual cap was also the result of a negotiated settlement."]
[60] Testimony of Eric Markell, pages 36-37, Exhibit No. ___ (EMM-1CT).

an approach does not reflect the basic needs for low-income residential customers and does not reflect the growing inability to pay the annual electric and gas utility bill for such households. A limitation of any increased bill assistance to the percentage rate increase of the residential class does nothing more than allow those who currently receive assistance to "run in place." I will discuss the needs of PSE's low-income customers and recommend additional funding beyond that proposed by PSE in this case.

Q: Second, do you agree that PSE's proposal to increase HELP funding for low-income gas customers based on the results of a "typical bill analysis" if the Company's rate design proposal to increase the basic monthly charge to $18.00 should be accepted?

A: No, I do not recommend that any increase in the HELP program funding for gas customers should depend on PSE's analysis of typical bill impacts that result from its attempt to shift costs from volumetric rates to fixed monthly charges. As my testimony will demonstrate, only a small proportion of low-income customers actually participate in HELP. The impact of any rate design change on low-income customers cannot be fairly determined by simply looking at the small proportion of low-income customers that participate in the HELP program. Rather, my overall recommendation is to focus on the need to establish a measured increase to the level of participation in HELP for both gas and electric customers.

Q: Please describe the current HELP program and its participation rates.

A: PSE's HELP program served approximately 18,000 low-income residential customers in 2007 (approximately 14,000 electric customers and 6,000 gas customers, but note that approximately 2,300 HELP customers are duel fuel PSE customers). The average 2007

electric benefit was $373 and the average gas benefit was $344. The total dollar amount of HELP electric bill payment assistance was $5.2 million. The total dollar amount of HELP gas bill payment assistance was $2.2 million, resulting in total HELP benefits equal to $7,501,705.[61] In addition, administrative and enrollment costs were $1.8 million. The costs of this program are recovered from all customers through PSE's electric and gas tariff rider Schedules 129. PSE customers are qualified for HELP based on the same household income guidelines that are used by LIHEAP, which in Washington is 50 percent of the area's median household income, with an upper bound cap of 150 percent of federal poverty guidelines and a lower bound of 125 percent of federal poverty guidelines, depending on the local area's median household income. As a practical matter, this means that the eligibility criterion for LIHEAP and HELP is 125 percent of the federal poverty guidelines in PSE's service territory. I should point out that Washington's LIHEAP criteria are below the maximum allowed by federal law which is 150 percent of federal poverty guidelines.

The HELP benefit is calculated by the local community action agencies who deliver LIHEAP. The benefit reflects a formula that takes into account the customer's household income and energy usage and attempts to target larger benefit amounts to those with the most significant energy burden, i.e., the largest disparity between the actual bill and the customer's ability to pay the bill. The benefit is provided in the form

[61] PSE Response to Public Counsel Data Request No. 689, Attachment A.

of a lump sum benefit on the customer's bill, similar to the manner in which the LIHEAP benefit is applied to the customer's bill.

Q: Does PSE know whether this program meets the needs of its low-income customers in terms of penetration rate and impact of the program on bill payment and retention of essential electricity or gas service?

A: PSE does not know what percentage of low-income customers are served by HELP. Furthermore, PSE has not done any evaluation of the effectiveness of the HELP program in terms of impact on affordability and retention of service. PSE's reports on this program do not reflect any analysis of HELP's impact on regular bill payment, keeping payment plans, or avoiding disconnection of service.[62] Nor has PSE done an analysis of HELP on PSE's customer collection costs, including bad debt expense.[63]

Q: Please describe the energy needs of PSE's low-income customers.

A: According to a recent report on Washington state energy needs, done by Apprise, Inc. for the Washington Office of Community Trade and Economic Development,[64] 14 percent of all households in Washington have a total household income at or below 125 percent of the federal poverty level and an additional 4 percent of all households have an income between 125 percent and 150 percent of the federal poverty level. Of these households, 72 percent of the households in Washington with income at or less than 125 percent of

[62] PSE Response to Public Counsel Data Request No. 472.
[63] PSE Response to Public Counsel Data Requests No. 471.
[64] Washington State Energy Needs: Final Report (December 2007). Available at www.appriseinc.org.

the federal poverty level have an energy burden that is greater than 5 percent of their annual household income and 46 percent of these households have an energy burden greater than 10 percent of income. With regard to PSE's low-income households, the report estimated that 73 percent had a household energy burden in excess of 5 percent and 49 percent had an energy burden at 10 percent of more. Such households would have to allocate 10 percent of their household income to pay for vital and essential electric and gas service.

This study also found that a high percentage of low-income households have "high" electric bills in Washington: 62,000 had high baseload electric bills (over 8,000 kWh annual usage), 84,000 had high electric heating bills (over 16,000 kWh annual usage), and 6,000 had high gas heating bills (over 1,200 therms annual usage). The percentage of PSE's low-income customers with "high" usage was estimated at 69 percent, 34 percent and 16 percent, respectively. This information confirms that low-income customers have a high penetration rate for electric heat. In fact, the main heating fuel for 67 percent of PSE's customers is electric heat and only 21 percent rely on natural gas for their main heating fuel.

PSE has over 1 million residential electric customers and 713,000 residential gas customers. The Report estimates that 10 percent of PSE's customers or 171,300 have income at or below 125 percent of poverty. Based on the 18,000 customers served by HELP in 2007, PSE's program only serves 10-11 percent of those eligible for the program. I calculate that PSE's HELP program reaches approximately 12 percent of

eligible electric customers based on the higher level of participation of PSE's electric customers in HELP.

Q: Are your concerns about the needs of PSE's low-income customers exacerbated by the current economic recession?

A: Of course. The credit and mortgage crisis and the crushing burden of just paying for gasoline and food is beginning to ripple through the economy. Job losses or lack of growth in employment, increased applications for Food Stamps and other financial assistance programs are indicators of the impact these economic trends are likely to have on the ability of PSE's low-income customers to pay for and retain essential electricity and natural gas service. For example, the Washington Economic and Revenue Forecast Council's February 2008 Forecast documented the decrease in housing starts and rising unemployment rate.[65]

Q: What level of funding do you recommend for HELP in this case?

A: PSE's proposal to increase HELP funding is a step in the right direction. At a minimum, I recommend that HELP funding be increased by the percentage rate increase approved by the Commission for the residential class. However, this is an insufficient method to establish the funding level for this program. HELP funding should also be increased beyond that level to begin to assure a steady progress in reaching out and enrolling

[65] This report is available at the ERF website: www.erfc.wa.gov.

qualified low-income customers into this program. I recommend that the Commission should approve an approach that focuses on increasing the enrollment of qualified HELP customers over a several year period. PSE can recover the actual costs associated with any level of HELP enrollment and reset the ratepayer recovery mechanism to reflect actual costs. For this base rate case I recommend that PSE be authorized to file for a change in the Schedule 129 HELP cost recovery surcharge no more than once per year and that the Commission authorize cost recovery for a total increase in customer participation of approximately 5, 000 new HELP customers over the 2007 program performance of 18,087. Furthermore, I recommend that PSE establish a priority to increase its enrollment of electric low-income customers. Based on the current average electric benefit of $373, 4,500 additional electric customers' HELP benefits would cost approximately $1.68 million. Based on the average gas benefit of $344, HELP benefits for an additional 500 gas customers would cost approximately $173,000. My recommendation is intended to focus primarily on low-income electric customers since they have the greatest energy burden and there are fewer low-income gas customers served by PSE.

In conclusion, the total HELP budget should be increased to reflect (1) the percentage rate increase approved by the Commission; (2) these new enrollment objectives; and (3) the proportional administrative and program costs associated with the implementation of this increased enrollment.

Q: Do you have any concerns about the manner in which the HELP bill assistance is provided to PSE's customers in the form of a lump sum benefit?

A: Yes. I have two concerns. First, recent national studies of the effectiveness of bill payment assistance programs and my own experience with the design and funding of such programs suggest that providing low-income customers with a significant lump sum benefit once per year may not be as effective as providing bill assistance in an equal amount every month. A recent national study that evaluated a number of ratepayer funded low-income bill assistance programs found that programs that equalized monthly benefits and sought equal monthly payments from participating customers had the most likelihood of resulting in more regular or frequent payments of the monthly utility bill.[66]

Second, the application of a lump sum benefit to a low-income customer's bill carries with it the risk that such payments will be allocated to prior balances due and thus will not serve the intent of the program to provide ongoing bill assistance for the 12 months after the benefit is calculated. The purpose of the HELP program should not be to retire arrears balances incurred by the customer, but to assist the customer in paying current bills for the program year.

Q: In light of these concerns, what do you recommend?

A: I recommend that PSE discuss this issue and the potential for applying the HELP benefit in equal installments on the monthly bill with representatives of clients and the agencies who currently qualify customers for this program in the HELP Advisory Committee. The

[66] Apprise and Fisher, Sheehan, Colton, Ratepayer Funded Low-income Energy Programs: Performance and Possibilities (July 2007). Available at http://www.appriseinc.org/reports/NLIEC %20Multi-Sponsor %20Study.pdf See discussion at pages 96-98.

results of these discussions should then be reported to the Commission with any recommendations that result from these consultations.

Q: In light of the lack of information on the impact of the HELP program on the ability of customers to make regular bill payments or PSE's billing and collection programs, do you have a recommendation?

A: Yes. I recommend that the Commission require PSE to evaluate the impact of the HELP program on the ability of customers to maintain and obtain essential electric and gas services. All parties will benefit from understanding the impact of HELP on customer bill payment patterns, participation in payment plans, impact on PSE's collection activities and expenses, including disconnection of service and bad debt expense.

Furthermore, this evaluation should document in more detail the needs of PSE's low-income customers and discuss the various means by which those needs can be more adequately met. Again, I recommend that PSE consult with the HELP Advisory Committee in carrying out this evaluation. The resulting evaluation should be submitted to the Commission for review and comment by interested persons within one year after the Commission's order in this proceeding.

Q: Please describe PSE's funding for low-income energy efficiency and demand side management programs.

A: PSE provides funding for cost-effective home weatherization measures for low-income gas and electric heat customers. Funds are used for single-family, multifamily, and mobile home residences. The participants in this program are referred by the low-income and crisis service agencies and qualification is done by the same agencies that operate the

U.S. Department of Energy Weatherization Program. PSE recently has agreed to increase the amount paid for the various measures that are installed under these programs, a welcome development since the reimbursement rates for these measures had not changed in many years and the older rates do not reflect the increased cost of materials, labor and transportation for these programs. However, the overall budget has not increased to reflect these increased payments for the weatherization measures.

Prior to 2007, PSE spent an average of $2.2 million for this program as part of a large and very robust energy efficiency and conservation budget.[67] In general, PSE's energy efficiency program funding has increased significantly for residential and commercial customers, but the comparable level of increase has not been implemented for the low-income programs. PSE has increased energy efficiency program funding from $18.7 million in 2003 to $25.4 million in 2006, an 89 percent increase. However, the funding for the low-income program essentially remained level during this same period.

Q: Do you think this is adequate funding for this program?

A: No. The flat funding for this program does not reflect the underlying increases in prices charged for electricity and gas service by PSE since 2003 with the constant filing of base rate and fuel price increases. Nor does this level of funding reflect the impact of PSE's intent to provide additional financial support for the various measures allowed to be paid for by this program. Finally, this flat level of funding does not reflect the impact of what

[67] PSE Response to Public Counsel Data Request No. 566, Attachments A and B are the source of the spending levels for the various energy efficiency programs in this section.

is surely to be higher prices to implement Washington's green house gas and carbon legislation and the growing indicators of an economic recession. All of these factors will put significant pressures on low-income families to afford the basic necessities of electricity and natural gas service and suggest that PSE should increase the funding for low-income weatherization programs.

Q: What level of increased funding for low-income energy efficiency programs do you recommend?

A: I recommend that PSE increase funding for the low-income energy efficiency program. My recommendation is for a minimum increase of $1.5 million to the program's annual average budget from the 2008-2009 biennium. PSE should work with the provider agencies to develop a plan to implement this increased level of funding over a 12-24 month period.

VII. PSE'S HANDLING OF "ZERO" METER READS AND BACK BILLING TO AFFECTED CUSTOMERS

Q: Have you been made aware of an increase in PSE's meter reading failures and the issuance of large back bills to customers?

A: Yes. I have reviewed materials provided by PSE in response to data requests submitted by the Commission Staff. In addition, the Public Counsel has provided me with recent news items[68] and customer complaints[69] filed with the Public Counsel concerning

[68] See, e.g. "Couple back-billed $1,900 by Puget Sound Energy," King 5 News, (April 8, 2008).
[69] One customer contacted the Public Counsel and stated that their meter had been inoperative or malfunctioning for 16 months, resulting in a back bill of $1,500.

customers who have been issued large back bills as a result of PSE's inability to obtain an actual meter reading, particularly for natural gas service. In many of these situations, the meter is reporting a "zero" read, primarily due to the failure of PSE's automatic meter reading equipment installed on the meter.

The extent of this back billing activity is significant. PSE conducted field inspections of 1,842 gas and 1,017 electric "zero consumption" meters in 2007, resulting in replacement of the meter or the meter reading module.[70] PSE issued 3,506 bills to correct meter errors from October 2006 through September 2007.[71] Furthermore, PSE has stated that it has offered some affected customers "settlements for less than the full amount of a back billing resulting from a meter error." PSE issued over $5 million in settlements for less than the full amount in the period October 2006 through September 2007.[72]

Q: Please describe your concern about this pattern and your recommendation for the appropriate response by the Commission?

A: I am concerned about the scope and scale of this problem. Furthermore, I am very concerned that the proper incentive does not exist to assure that PSE does preventive maintenance and maintains its meters and meter reading modules in working order. PSE is apparently back billing customers for substantial amounts and, in some cases, offering to settle the amount owed. This has the potential for discriminatory treatment of

[70] PSE Response to WUTC Staff Data Request No. 158.
[71] PSE Response to WUTC Staff Data Request No. 53, Attachment A.
[72] PSE Response to WUTC Staff Data Request No. 161.

customers. It is unclear in Washington whether the rules prohibit a utility from back billing a customer for a meter reading failure that is the responsibility of the utility. Under Maine's regulations, for example, a customer cannot be back billed for more than 12 month's usage unless the failure to issue an accurate bill was the fault of the customer (e.g., theft of service, tampering, etc.). It is PSE that has the obligation and duty to maintain and assure accurate meters and meter reading. Customers should not bear this risk or suffer unreasonably high back bills when PSE has this responsibility.

I recommend that the Commission require its Staff to conduct a docketed investigation in cooperation with the Public Counsel and other interested parties and issue a report on its findings and recommendations as soon as possible. Such a report may then need to be pursued in a rulemaking, a complaint proceeding, or other process to establish specific remedies for affected customers.

Q: **Does this complete your testimony at this time?**

A: Yes.