

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

IN THE MATTER OF THE JOINT APPLICATION OF

PUGET HOLDINGS LLC AND

PUGET SOUND ENERGY, INC.,

FOR AN ORDER AUTHORIZING PROPOSED

TRANSACTION

DOCKET NO. U-072375

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

ON BEHALF OF

PUBLIC COUNSEL AND THE ENERGY PROJECT

June 18, 2008

PUBLIC VERSION

DIRECT TESTIMONY OF BARBARA R. ALEXANDER (BRA-1T)
DOCKET NO. U-072375

TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION / SUMMARY	1
II. COMMITMENTS OFFERED BY THE APPLICANTS IF THIS APPLICATION FOR SALE IS APPROVED	6
III. RISKS TO CUSTOMERS POSED BY THIS TRANSACTION	13
IV. PSE'S SERVICE QUALITY AND CUSTOMER SERVICE PERFORMANCE: PROPOSED CONDITIONS	21
V. PSE'S LOW INCOME PROGRAMS: PROPOSED CONDITIONS	34

EXHIBIT LIST

Exhibit No. ____ (BRA-2) Resume

Exhibit No. ____ (BRA-3) Puget Sound Energy Service Quality Index Performance

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

I. INTRODUCTION / SUMMARY

Q: Please state your name and business address.

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

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

A: I am a self-employed 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

1 commissions in Pennsylvania, Maine, Vermont, California, New Jersey,
2 Maryland, Illinois, Colorado, West Virginia, Iowa, Kansas, Texas, Wisconsin,
3 Montana, Washington, and the Canadian Radio-Television and
4 Telecommunications Commission.

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

13 On May 23, 2008, I filed Direct Testimony on behalf of Public Counsel
14 and the Energy Project in the pending GRC proceeding filed by Puget Sound
15 Energy, Docket Nos. UE-072300 and UG-072301.

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

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

20 **Q: What exhibits are you sponsoring in this proceeding?**

21 A: I am sponsoring Exhibit No. ____ (BRA-2), which is my resume and which lists
22 my publications and formal testimony before state regulatory commissions, and

1 Exhibit No. ____ (BRA-3), which is a compilation of PSE's service quality
2 performance under the current SQI from 1997 through 2007.

3 **Q: Please describe the issues you will address in this proceeding.**

4 A: The purpose of my testimony is to respond to the filing by Puget Sound Energy
5 (PSE or Puget) and Puget Holding LLC seeking approval from the WUTC to
6 transfer the control of PSE to a holding company whose majority ownership is
7 controlled by The Macquarie Group (Macquarie), an investment fund based in
8 Australia. My testimony will address those aspects of the acquisition that may
9 affect customer service, reliability and service quality, and low-income programs.
10 I will review PSE's service quality and low income programs and policies and the
11 promises made by the Applicants in this proceeding, and will propose conditions
12 with respect to these issues that should be imposed if the Commission approves
13 this acquisition.

14 **Q: Do you offer an opinion on whether the Commission should approve this
15 Application?**

16 A: Based on my review of the service quality, customer service, and low income
17 commitments made by the Joint Applicants, I support the recommendation of Mr.
18 Stephen Hill on behalf of Public Counsel that this proposed transaction should be
19 not be approved. Based on my review of these commitments, which I discuss in
20 more detail below, the Joint Applicants have not demonstrated that the transaction
21 will be in the public interest. My testimony also proposes specific conditions with
22 respect to service quality, customer service, and low income programs if the
23 Commission chooses to approve this transaction.

1 **Q: In general, what recommendation do you make with respect to the conditions**
2 **that the Commission should require the Joint Applicants to meet if the**
3 **Commission decides to approve this transaction?**

4 A: Because this proceeding is on a different track from PSE's pending general rate
5 case (GRC) in Docket Nos. UE-072300 and UG-072301, I recommend that all of
6 the proposals that I have made in the GRC should be adhered to as a condition of
7 this proposed sale of PSE. I discuss the most significant conditions in more detail
8 below in this testimony, but overall, the recommendations with respect to Public
9 Counsel's witnesses in the GRC should be linked and imposed upon the Joint
10 Applicants should this transaction be approved.

11 **Q: What has the Commission stated about the need to evaluate service quality,**
12 **reliability of service, and impacts on low income customers with respect to**
13 **similar transactions involving Washington's public utilities?**

14 A: In its consideration of the PacifiCorp and Scottish Power merger, the Commission
15 identified the relevant issues and scope of inquiry to include the following:

16 **Quality of service:** This issue appears to be the heart of the matter from
17 Applicants' perspective. Scottish Power makes commitments to service quality,
18 reliability, and customer service. We agree with several of the parties that this
19 subject requires further consideration. Questions regarding how Scottish Power
20 will improve customer service, the source of funding for improvements, the need
21 for improvements, the effects of the promised efficiencies, the fund allotment for
22 low income assistance, and related issues require more information and analysis.¹
23

¹ *In the Matter of the Application of PacifiCorp and Scottish Power*, Docket UE-981627, Third Supplemental Order, p 3 (PacifiCorp/Scottish Power merger).

1 **Q: Please summarize your conclusions and recommendations.**

2 A: My testimony describes the risks associated with this proposed transaction to
3 PSE's customers and the failure of the Joint Applicants to meaningfully address
4 these risks. My testimony proposes specific conditions with respect to service
5 quality, customer service, and low income programs if the Commission chooses
6 to approve this transaction. The following is a summary of my recommended
7 conditions:

- 8 • PSE's Service Quality Performance and Structure of the SQI— PSE's annual
9 service quality reports filed with the Commission indicate that several aspects of
10 the Company's service are in need of improvement. Additionally, the manner in
11 which the SQI tracks customer call center performance fails to assure a reasonable
12 level of service throughout the calendar year. My recommendations seek to
13 increase penalties to reflect PSE's growing revenues, reform the call center
14 performance standard to reflect quarterly performance, respond to PSE's failure to
15 meet the SAIDI standard for two consecutive years, and include additional
16 reporting requirements that reflect emerging service quality performance results.
- 17 • PSEs Low Income Bill Payment Assistance Program: Funding and Design—The
18 funding level for PSE's bill payment assistance program is insufficient and
19 enrollment of qualified low income customers reflects a very low penetration rate.
20 I recommend that PSE seek to increase the enrollment of qualified HELP
21 customers over a several year period, beginning with an increase in the next
22 program year of 5,000 additional customers over the number served in 2007. In
23 the course of that effort, PSE should continue to work with the HELP advisory

1 committee to investigate ways to improve program delivery and effectiveness.

- 2 • PSEs Low Income Programs: Energy Efficiency—PSE should increase funding
3 for its low-income energy efficiency programs to compensate for the increased
4 costs for the weatherization measures and to serve more households. Beginning in
5 2009, I recommend an increase in ratepayer funding of \$1,500,000 per year
6 compared to PSE's proposed budget for this program in 2008-2009. Second, I
7 recommend that the Commission require as a reasonable condition for approval of
8 this proposed sale an additional shareholder contribution to the low-income
9 energy efficiency programs in the amount of \$7.25 million over five years, similar
10 to the contribution that PSE made to this effort in 1997. In both cases, PSE
11 should work with the provider agencies to develop a plan to implement this
12 increased level of funding over a 12-24 month period.

13 **II. COMMITMENTS OFFERED BY THE APPLICANTS IF THIS**
14 **APPLICATION FOR SALE IS APPROVED**

15 **Q: Please describe your understanding of this transaction and summarize the**
16 **benefits to PSE's customers promised by the Applicants if the transaction is**
17 **approved.**

18 **A:** If this transaction is approved, Puget Sound Energy, an electric and natural gas
19 utility regulated by the Washington Utilities and Transportation Commission, will
20 be owned by Puget Holdings, a Delaware limited liability company, which is
21 owned by six different investing entities. Slightly over 50% of the ownership
22 interest will be held by three members of the Macquarie Group (Macquarie).

1 Macquarie has its antecedents in Australia and is headquartered in Australia. The
2 other three entities reflect Canadian ownership or investment vehicles.²

3 The Applicants claim that the new investors and owners will be able to
4 provide the significant capital needs of PSE and that the “magnitude” of the
5 external funding needs of PSE “puts PSE and the region at risk.”³ The
6 Applicants state that the provision of the needed capital investment will “sustain a
7 successful, locally managed public utility.” These commitments are identified as
8 “substantial benefits for PSE’s customers.”⁴ The Applicants also promise
9 additional “specific commitments that benefit PSE customers and that protect
10 PSE’s customers from risk of harm from the Proposed Transaction.”⁵ I will not
11 discuss all the specific commitments, but will focus on those that relate to Quality
12 of Service, the Capital Investments relating to delivery infrastructure, Low-
13 Income Assistance, and the proposed contribution to Puget Sound Energy
14 Foundation. These commitments include:

- 15 • With regard to Quality of Service, the Applicants promise to continue the
16 currently applicable Service Quality Index.⁶
- 17 • With regard to Low-Income Assistance, the Applicants promise to maintain
18 existing programs and work with low-income agencies to address issues
19 relating to low-income customers.⁷

² *Joint Application For an Order Authorizing Proposed Transaction* (Joint Application), Appendix B. Public Counsel witness Stephen Hill describes the specifics of the transaction in greater detail.

³ Joint Application, ¶ 34.

⁴ *Id.*

⁵ *Id.*

⁶ Joint Application, ¶ 37.

⁷ Joint Application, ¶¶ 74-75.

- 1 • The Applicants promise to provide a one-time contribution of \$5 million to
2 the Puget Sound Energy Foundation.⁸
- 3 • The Applicants stated that meeting PSE’s investment needs for delivery
4 infrastructure will be considered a “high priority” by the Board of Puget
5 Holdings and PSE. A specific credit facility in an amount of not less than
6 \$1.4 billion will be made available to PSE to support its October 19, 2007,
7 Business Plan.⁹

8 **Q: Do the Joint Applicants expand on any of these commitments in their**
9 **testimony filed with the Joint Application?**

10 A: Mr. Christopher Leslie, on behalf of Puget Holdings LLC, testifies that PSE is a
11 “well run utility that provides excellent service to a growing region.”¹⁰ He states
12 that the Service Quality Commitment (to continue the current SQI) “provides
13 assurance to the Commission and PSE’s customers that the high quality of service
14 PSE has been providing will continue.”¹¹ With regard to the Capital
15 Requirements Commitment, he states that the transaction is “structured to
16 strengthen PSE’s balance sheet at closing” and will “provide a more reliable
17 source of funding for PSE’s capital investments needs, including the acquisition
18 of electric generation resources to meet the growing needs PSE’s customer base,
19 and replacement of aging energy delivery infrastructure so that PSE can continue
20 providing reliable electric and gas service to its customers.”¹² Mr. Leslie

⁸ Joint Application, ¶ 55

⁹ Joint Application, ¶¶ 38-39

¹⁰ Exhibit No. ____ (CJL-1T), p. 26

¹¹ Exhibit No. ____ (CJL-1T), p. 29

¹² Exhibit No. ____ (CJL-1T), p. 30

1 promises that any “net cost savings” as a result of the transaction will be reflected
2 in subsequent rate proceedings and that this is a benefit because it provides a
3 “...mechanism for customers to realize any savings that results from the Proposed
4 Transaction.”¹³ With regard to the Low-Income Assistance Commitment, Mr.
5 Leslie states that the continuation of the current programs will ensure that “...low
6 income customers will not be exposed to harm as a result of the Proposed
7 Transaction.”¹⁴

8 **Q: Did you conduct discovery to explore these proposed commitments in more**
9 **detail and, if so, with what result?**

10 A: Yes. A review of the discovery and responses in this proceeding indicates that
11 there are no concrete additional benefits provided to PSE’s residential customers
12 if this transaction is approved. The commitments do nothing more than promise
13 to comply with current orders of the Commission or Washington’s statutory
14 policies. PSE has stated that it will not fail to make any needed investments if the
15 proposed sale is rejected. Rather, the “promise” is that the sale will result in an
16 “improved access to capital”¹⁵ While Mr. Reynolds, on behalf of PSE, references
17 PSE’s dedication “to continually improve service quality,”¹⁶ PSE does not
18 propose any additional service quality standards other than those already in
19 place.¹⁷ As I will describe more fully later in my testimony, PSE has not
20 complied with one of the key reliability service quality performance standards for

¹³ Exhibit No. ____ (CJL-1T), p. 32.

¹⁴ Exhibit No. ____ (CJL-1T), p. 42.

¹⁵ PSE Response to WUTC Staff Data Request No. 1032.

¹⁶ Exhibit No. ____ (SPR-1T), p. 9.

¹⁷ PSE Response to WUTC Staff Data Request No.1031.

1 the last two years. In addition, its call center performance is erratic and falls
2 below acceptable standards in several months of each year. Furthermore, PSE is
3 unable to identify any specific investments that will be made with the “improved
4 access to capital” that will result in improved service quality for its customers.¹⁸

5 According to Mr. Reynolds, PSE will primarily focus on achieving the applicable
6 service quality performance requirements of the SQI in the future in order to meet
7 customer needs.¹⁹ No new standards are proposed. No specific level of
8 improvement in customer service quality is promised.

9 **Q: Please discuss the commitment by Macquarie to a one-time contribution of**
10 **\$5 million to the Puget Sound Energy Foundation.**

11 A: It is not clear whether this proposed commitment will in fact result in an
12 additional \$5 million in funds available to the Foundation since it is unknown
13 what criteria governs the current contributions allocated to the Foundation by the
14 current owners of PSE. In any case, this Foundation is not subject to the
15 Commission’s regulatory oversight. These contributions will certainly benefit the
16 local community, but they are not contributions that directly impact the regulated
17 services and the ratepayers that the Commission is charged with protecting. The
18 additional funds will be used according to the PSE Foundation funding priorities
19 and guidelines.²⁰

¹⁸ PSE Response to Public Counsel Data Request No. 3129

¹⁹ PSE Response to Public Counsel Data Request No. 3130. See also PSE Response to Public Counsel Data Request No.3132.

²⁰ PSE Response to Public Counsel Data Request No. 3127.

1 **Q: In your opinion, are these specific “commitments” by the Applicants**
2 **sufficient to demonstrate that the transaction will not result in harm to**
3 **ratepayers or increase the risk of harm to ratepayers?**

4 A: No. I do not believe it is appropriate for the Commission to rely on the
5 commitments proposed by the Applicants with respect to customer service,
6 reliability of service (investment in the distribution infrastructure), contributions
7 to a PSE-controlled foundation, or low-income programs as sufficient to ensure
8 that customers will not be exposed to harm. Nor do they reflect a fair and
9 balanced allocation of the risks and rewards associated with this transaction. For
10 the most part, these “commitments” do not respond to the heightened risk of
11 deterioration of service or adverse impacts on low income customers should
12 service deteriorate and prices increase as a result of this transaction. The
13 “promises” are nothing more than the continuation of current programs and
14 policies that are in effect and that the Commission has plenary authority to
15 oversee, continue, terminate, or make additional changes as circumstances
16 warrant. I will discuss the potential risks and harms to ratepayers with respect to
17 these issues in more detail below and propose conditions that are meaningful,
18 enforceable, and appropriate in light of risks associated with this transaction and
19 that reflect concerns by other state commissions for transactions of this type in
20 other jurisdictions.

21 **Q: What is your response to the Joint Applicants’ assertion that the promised**
22 **access to capital for investments by PSE in generation and distribution**
23 **infrastructure will result in benefits to PSE’s customers?**

1 A: While Mr. Hill, on behalf of Public Counsel, describes his concern with the
2 Applicants' line of reasoning in his testimony, my additional concern is that the
3 commitments made by the Joint Applicants with respect to access to capital
4 resources is not accompanied by any showing that this capital resource is the
5 "best" option for PSE's ratepayers compared to other options. Nor is this
6 commitment accompanied by any assurance that any of this access to capital will
7 result in adequate or improved service quality performance or reliability of
8 service for PSE's ratepayers.

9 The proposed commitment relating to new investment refers to making
10 funds available to PSE to carry out PSEs 2007 Updated Business Plan. A
11 confidential copy was provided in PSE's Response to Public Counsel Data
12 Request No. 3069. While the Business Plan is confidential, it is fair to state that
13 this plan focuses on earnings and the impact of the proposed business plan on the
14 corporate balance sheet and does not reflect commitments for specific or
15 measureable service quality results for ratepayers. I understand that the current
16 SQI measures some of the key variables related to customer service quality and
17 reliability of service and that the Joint Applicants have committed to continue to
18 comply with the current SQI. However, PSE has failed to meet one of the critical
19 reliability performance standards for the past two years. PSE barely meets the
20 customer calling performance standard. Furthermore, the current SQI does not
21 even measure PSE's performance in assuring timely delivery of service to
22 customers for which new construction is required.

1 The combination of the new owners' reasonable expectations of profit
2 earned on this investment in purchasing PSE and the lack of any specific or
3 enforceable promise relating to the results of providing new capital resources to
4 PSE suggests that my concern about who bears the risks associated with this
5 proposed transaction are reasonable and valid.

6 **III. RISKS TO CUSTOMERS POSED BY THIS TRANSACTION**

7 **Q: Please describe the risks and potential harms to residential customers that**
8 **may result from this transaction.**

9 A: The lack of specificity with respect to the impact of this transaction on customer
10 service, service quality, and low-income programs and the failure to identify any
11 specific goals and objectives that will guide the operations of PSE by its new
12 owners increases the risk of a degradation of service quality and reliability of
13 service. It also threatens the ability of vulnerable lower income customers to
14 maintain and retain affordable service. There are a number of reasons why this
15 proposed acquisition does not adequately respond to the needs of residential
16 customers or respond to the risk of harm associated with such a dramatic change
17 in ownership of Washington's largest investor-owned public utility.

18 **Q: Do the "commitments" proposed by Mr. Leslie and the Joint Applicants**
19 **adequately respond to the risks associated with this transaction?**

20 A: No. First, the proposed commitments by Mr. Leslie on behalf of Puget Holdings,
21 LLC are vague and without substance. In most cases, he promises only items
22 which already in effect and which the new owners have no authority to change
23 without the Commission's approval in any event. A promise not to seek to

1 eliminate the SQI, for example has no value since, in 2002, PSE already agreed
2 not to seek to terminate the SQI. Mr. Leslie's promise to continue the current
3 low-income programs is a similar "non-promise" and the notion that PSE has to
4 promise to consult with low income advocates concerning the needs of low
5 income customers is similarly without meaning or value.

6 With regard to new infrastructure investments, the Applicants have not
7 really promised a specific level of investment. Nor have they demonstrated that
8 the costs for these capital investments would somehow be lower or more
9 beneficial to PSE's customers in the form of lower rates compared to the
10 traditional access to capital available to PSE. No specific investments are
11 promised. There are no performance measures or other indicia proposed to ensure
12 that such investments will result in an adequate level of facilities to respond to
13 local growth and development. These promises reflect a complete lack of risk
14 assumed by PSE's new owners. On the contrary, all the risks associated with the
15 failure to meet these commitments remain with PSE's customers.

16 Second, customers will bear significant risks associated with the transfer
17 of ownership from a Washington-based utility with publicly traded stock and
18 shareholders responsive to Washington's regulatory policies to a private equity
19 investment consortium. The new owners will naturally seek a return on this
20 investment. The operations of the many companies and investments made by the
21 Macquarie Group and the urge to generate the return on the substantial investment
22 made to acquire PSE may result in pressure to cut costs and reduce expenses, thus
23 adversely impacting customer service and service reliability. I am not suggesting

1 that adverse results are necessarily inevitable as a result of this transaction.

2 However, it is only appropriate to point out the potential for such actions that
3 have occurred when utilities have been acquired by new owners in the past and
4 that could occur when management is striving to demonstrate lower costs and
5 savings to its investors. Of course, it may be possible to reduce costs, increase
6 efficiency, increase profits, and improve customer service and service quality
7 performance. My recommendations are designed to make it more likely that these
8 “win-win” results do occur and that the risk of their non-occurrence is shifted
9 from Puget’s customers to Macquarie’s investors.

10 Finally, the risks I have described above can have particularly adverse
11 consequences for low-income and other payment troubled customers. These
12 customers rely heavily on the ability to reach customer service representatives in a
13 timely manner, respond to threats of discontinuance of service, negotiate
14 reasonable payment arrangements, and make use of their rights under the
15 Commission’s credit and collection and consumer protection rules. More so than
16 other residential customers, low-income, vulnerable, and payment troubled
17 customers rely on access to customer call centers to negotiate payment
18 arrangements, respond to disconnection notices, and enroll in various low-income
19 programs. Low-income customers are typically disconnected more frequently
20 than non low-income customers and experience a higher rate of nonpayment.²¹

²¹ According to the U.S. Department of Energy-Energy Information Administration 1997 Residential Energy Consumption Survey, over 5 percent of low-income households experienced an electric shutoff in 1997 compare to less than 2 percent of those over 150 percent of poverty. Those with very low-income (less than \$5,000 annual household income) experience disconnection at an even higher rate, about 8 percent.

1 The receipt of timely and accurate bills and disconnection notices with a well-
2 understood and efficient collection routine is crucial to such customers' ability to
3 manage their monthly payments and seek financial assistance. These activities
4 are at risk, even if a utility has historically had good service quality, when a
5 company is subjected to pressures to assure adequate profits to new investors.

6 **Q: Have other state regulatory commissions shared your concerns and imposed**
7 **meaningful conditions for transactions of this type?**

8 A: Yes. In fact, the Macquarie Group purchase of Duquesne Light Co. in
9 Pennsylvania was approved pursuant to a settlement that included specific service
10 quality performance measurements and new performance standards. The fact that
11 these were agreed to was significant because of the lack of previously established
12 service quality performance standards applicable to Duquesne.²² Finally,
13 specific consultations were set forth with low income and other public interest
14 advocates for low income programs and the settlement reflected additional
15 funding for specified low income programs, including the expansion of eligibility
16 for the low income weatherization program and commitments to expend the
17 budgeted funds in future years. In the case of the latter programs, the settlement
18 of the sale transaction specifically linked an increase in certain funding levels of a
19 recently concluded base rate case.

²² Pennsylvania PUC, Application of Duquesne Light Company for a Certificate of Public Convenience Under Section 1102(a)(3) of the Public Utility Code Approving the Acquisition of Duquesne Light Holdings, Inc., by Merger, Docket No. A-110150F0035, Initial Decision (March 20, 2007), provided in PSE's Response to Public Counsel Data Request No. 3116, Attachment C. (includes settlement agreement).

1 There are a number of examples of state regulatory commission action in
2 response to mergers or sale transactions on the issues of customer service and
3 service quality.

4 The Massachusetts regulatory commission has routinely required that
5 proposals for merger or acquisition include specific provisions to track, report,
6 and establish enforceable performance standards to prevent the potential for
7 service quality deterioration. For example, in 1999, Massachusetts Electric Co.
8 and New England Power Co. and Eastern Edison Co. petitioned for approval of
9 Eastern Edison Company's merger into Massachusetts Electric Company and for
10 other related approvals.²³ In its Order, the Massachusetts Commission stated:

11 The Department has recognized the importance of maintaining
12 service quality, particularly when mergers, and the resultant efforts
13 to achieve cost savings or "synergies," can potentially lead to
14 service quality degradation. Boston Edison Merger at 15; Mergers
15 and Acquisitions at 8-10. Acknowledgment of the importance of
16 service quality led the Department to direct all companies that file
17 for approval of mergers or acquisitions to include a service quality
18 plan in their filings. Eastern-Essex Acquisition at 33.

19 The New Jersey Board of Public Utilities has routinely noted the potential
20 for service quality deterioration as a result of a merger or acquisition and
21 approved specific conditions for the merger in recent electric and natural gas
22 proceedings. With regard to the merger proposal by Atlantic City Electric
23 (Conectiv) with Pepco, the Board stated in its Order:

24 In terms of customer service, Staff also recommended that
25 ACE retain the existing New Jersey customer payment
26 centers, maintain existing call center operation located in
27 New Jersey for at least five years post-merger; and commit
28 that any new call center operations will be staffed by
29

²³ D.T.E. No. 99-47 (2000) Available at: <http://www.mass.gov/dte/electric/99-47/finalorder31400.htm> .

1 trained in ACE's service territory issues, New Jersey
2 regulations, Board policy, ACE's tariffs and the New Jersey
3 Customer Choice Program. Staff requested that ACE also
4 be required to submit to the Board and the RPA a customer
5 information program designed to inform customers of the
6 merger, continuing BPU oversight and continuity of ACE's
7 customer service procedures. While supporting the Joint
8 Petitioners plan to establish performance goals and
9 penalties under a new "Customer Service guarantee"
10 program, Staff noted that ACE should be barred from
11 recovering any penalty payment costs from ratepayers.²⁴
12

13 Additionally, with respect to assuring compliance with New Jersey

14 customer service regulations, the Board stated:

15 ACE, Pepco and Delmarva combined their call
16 center statistics for purposes of the proposed guarantees,
17 and the statistics were based on historical performance of
18 the merged companies. Such an approach could be
19 expected to facilitate assurances that performance did not
20 deteriorate as a result of the merger. Pepco, ACE and
21 Delmarva agreed on a common approach to be utilized for
22 purposes of the proposed voluntary service level guarantees
23 subsequent to the merger (ID at 30.) ACE, in further
24 discussions with Division of Customer Relations Staff,
25 agreed to adopt the additional customer service initiatives.
26 ACE agreed to strive for an annual target of no more than
27 1500 customer complaints per year to the Board. If the
28 number of customer complaints exceeds 1500 in any year,
29 ACE shall meet with the Division of Customer Relations to
30 discuss the issue and, if necessary, develop a remediation
31 plan. ACE also agreed to maintain regular, ongoing
32 communications with the Board's Division of Customer
33 Relations, and schedule monthly meetings in person or by
34 telephone, or as the parties otherwise agree regarding the
35 customer service issues contained herein. Additionally,
36 ACE agreed to retain its existing New Jersey Customer
37 Payment Centers, i.e., Atlantic's walk-in offices where
38 company personnel accepts bill payments, for a period of at
39 least four (4) years following the completion of the merger
40 and to provide Board staff with a copy or description of the
41 collection policies to be used after the merger to the extent
42 they differ from ACE's current practices. For at least four

²⁴ Order at 15.

1 (4) years after the closing of the merger, ACE agreed to
2 maintain its existing call center operations in New Jersey.
3 Additionally, any new call center operations established to
4 serve New Jersey customers, regardless of the centers'
5 location, will be staffed by personnel trained and familiar
6 with ACE's tariffs and rules and other customer
7 safeguards.²⁵
8

9 Other states that have approved service quality performance plans as a
10 condition of mergers include Colorado (Colorado Public Service Co. merger with
11 Xcel, based in Minnesota), Washington (Puget/Washington Natural Gas, as noted
12 above), and Washington, Oregon, Utah and Idaho (PacifiCorp/Scottish Power
13 merger).

14 In addition to the Duquesne Light proceeding described above, the
15 Pennsylvania Commission has recognized the importance of assuring service
16 quality improvement and implementation of promised "best practices" as a result
17 of a merger. In its Order approving the merger of GPU, Inc. with FirstEnergy in
18 2001, the Commission approved a Service Quality Index plan proposed by the
19 OCA, stating, "Furthermore, without the SQI or some other customer service and
20 reliability measurement and enforcement mechanism, the Applicants' claimed
21 public benefit of improved customer service would be illusory."²⁶

22 **Q: Are there examples of mergers or sales of public utilities that have resulted in**
23 **degradation of service quality and harm to low income customers?**

24 A: Unfortunately, yes. In 2002, the Maine Commission opened an investigation into
25 the service quality performance of Northern Utilities after its parent company,

²⁵ Order at 32.

²⁶ Docket A-110300F0095, Opinion and Order, May 24, 2001 at 31-32.

1 Bay State Gas, merged with NIPSCO Industries (later renamed NiSource). In
2 opening this investigation, the Commission stated:

3 In approving the merger, we noted that customer
4 service quality can suffer when utility funds are short or
5 when management's interest in this aspect of a utility
6 subsidiary is diluted after a merger and that in other
7 reorganizations we had implemented service standards and
8 related penalties to ensure that customer service quality
9 would be maintained. The service quality indicia on which
10 Northern is required to report do not carry any formal
11 requirements or penalties for particular performance
12 results. Northern's rates are currently set using traditional
13 rate setting methodologies that do not impose any direct
14 penalties for poor service quality problems, relying instead
15 on rate of return allowances to discipline utilities.
16

17 The short time frame of the NiSource/Columbia
18 merger case did not allow development of service standards
19 and penalties. Consequently, we left open the question
20 whether, at a later date, we would open an investigation to
21 review the adequacy of Northern's service quality, its
22 reporting criteria, and to determine whether we should
23 adopt any mechanisms, programs, standards, or penalties to
24 ensure that Northern provides adequate service quality to
25 its customers. Consistent with our general authority, in the
26 event that Northern's service quality is inadequate, we will
27 order an appropriate remedy, one that could include
28 financial directives or instituting a performance based
29 regulatory mechanism.²⁷
30

31 Subsequent to this investigation, the PUC approved a Service Quality Plan
32 for Northern Utilities, Inc. which imposed a maximum penalty of \$300,000 if it
33 fails to meet 11 performance targets. The Commission's press release approving
34 this plan noted that it had received many complaints over the past three years
35 from customers who could not reach the company over the phone or who could

²⁷ See the Maine PUC's Order Initiating Management Audit and Investigation of Service Quality Incentive Plan (May 16, 2002) at <http://www.state.me.us/mpuc/orders/2002/2002-140o.htm>.

1 not understand their bills and directly linked these service quality failures with
2 numerous reorganizations and substantial cuts in personnel subsequent to the
3 merger.²⁸

4 In 2003, the Colorado PUC initiated an investigation into Colorado Public
5 Service Company's reliability of service in the wake of numerous outages for
6 which the company incurred a penalty of \$5 million in 2003. A Colorado Staff
7 report to the PUC found that the utility's new owner (Xcel) had reduced capital
8 investment in new distribution facilities and reduced its amount of capital
9 available to the subsidiary in Colorado.²⁹ Subsequent to this report, the Company
10 entered into a Stipulation with the PUC Staff and the Office of Consumer Counsel
11 that included additional investments in the distribution system, contributions to
12 the low-income program, and revisions to its Quality of Service Plan for the post-
13 2006 period.³⁰

14 IV. PSE'S SERVICE QUALITY AND CUSTOMER SERVICE

15 PERFORMANCE: PROPOSED CONDITIONS

16 **Q: Please describe PSE's current Service Quality Index and the recent**
17 **performance of PSE pursuant to these performance standards.**

18 **A:** The SQI was originally created in the stipulated settlement of the 1996 merger
19 between Puget Sound Power & Light Co. and Washington Natural Gas Co. in
20 Docket Nos. UE-951270 and UE-960195. The SQI was reviewed and modified in

²⁸ See PUC Orders Service Quality Plan for Northern Utilities, Inc. (March 29, 2004) at http://www.state.me.us/mpuc/staying_informed/news/news_releases/prNUIMgtAudit.htm.

²⁹ See <http://www.dora.state.co.us/puc/energy/InitialRpt01-14-04ReliabilityPSCoElectric.pdf>.

³⁰ Public Service's Quality of Service Plan can be accessed at its website in the Colorado electric tariff, pages 124-133: http://www.xcelenergy.com/docs/corpcomm/psco_elec_entire_tariff.pdf

1 PSE's General Rate Case in 2002 in Docket Nos. UE-011570 and UG-011571.

2 As a result of the 2002 rate case, the SQI was continued indefinitely beyond its
3 original five-year term, some of the metrics were modified, and the total potential
4 penalty amount was increased.

5 The current SQI contains 11 service quality performance metrics. There is
6 a maximum penalty of \$10 million that is applied in a predetermined formula
7 when PSE fails to meet one or more standards. Exhibit No. ____ (BRA-3) sets
8 forth the current performance areas and performance standards that PSE must
9 meet on an annual basis. Also included in this exhibit are PSE's actual
10 performance results between 1997 and 2007.

11 As Exhibit No. ____ (BRA-3) demonstrates, PSE has failed to meet the
12 System Average Interruption Duration Index (SAIDI) standard of 136 minutes per
13 customer per year in 2006 (214) and 2007 (167). This level of performance
14 shows a significant deterioration from the performance baseline requirement
15 equal to 57 percent in 2006 and 23 percent in 2007.³¹ PSE's failure to meet the
16 SAIDI benchmark has resulted in a penalty of \$1 million in 2006 and \$513,000 in
17 2007. Additionally, PSE has routinely failed to meet the Overall Customer
18 Satisfaction benchmark of 90 percent since 2000, but there is no penalty attached
19 to this performance measure. PSE's annual service quality reports filed with the
20 Commission also indicate that the company has met the annual average call center
21 performance standard of answering 75 percent of the calls that seek to speak with

³¹ The 2006 percentage deterioration was calculated as $(214-136) \div 136 = .573$. The 2007 percentage deterioration was calculated as $(167-136) \div 136 = .228$.

1 a customer representative within 30 seconds. PSE has reported their annual
2 performance results for 2005, 2006 and 2007 at exactly 75 percent, the minimum
3 performance standard.

4 **Q: As a result of this recent performance, do you think that the commitment to**
5 **continue the current SQI is sufficient?**

6 A: No. While I do not recommend any structural change to the SQI design, I do
7 recommend that the total dollar amount of penalties be increased to reflect the
8 revenue growth that PSE has experienced since the penalty was increased from
9 \$7.5 million to \$10 million in 2002. PSE's retail jurisdictional revenues grew
10 from \$1.9 billion in 2002 to over \$3 billion in 2007.³² I recommend an increased
11 total penalty amount of \$15 million be applicable to the SQI metrics. This
12 represents approximately 0.5 percent of these retail gas and electric revenues and
13 continues the historical approach to establishing a penalty level that reflects PSE's
14 revenues. After all, if the penalty dollars do not increase to reflect the growth in
15 revenues there is a risk that PSE could consider penalty dollars as "worth" the
16 cost of failing to deliver reasonable service quality and reliability to its customers.
17 This \$15 million should be allocated equally to the 10 SQI metrics (\$1.5 million
18 per metric) that carry the risk of penalties for the failure to meet the annual
19 standard. The penalty dollars should be calculated in the same manner as in the
20 past, but the dollars per point of deterioration should be increased by 50 percent to
21 reflect the increased total penalty dollars at risk.

³² 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.

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

2 A: PSE has not undertaken a formal analysis of the “root causes” of the performance
3 standard failures. The company has typically blamed weather-related events that
4 do not qualify as “major events” as the cause of this failure. PSE’s 2006 System
5 Performance Annual Review³³ describes the abnormal number of weather events
6 in 2006, stating that the same number of localized non-major weather related
7 events occurred in 2006 compared to 2003-2005 combined. The System
8 Performance report then states that “[o]nce we’ve reviewed our response to these
9 weather events and evaluated what can be done to modify sections of our electric
10 system to improve performance, we will be considering infrastructure additions
11 and modifications.”³⁴ The 2007 Service Quality Annual Report points to the
12 wind storms in January 2007 that did not meet the “major event” exclusion
13 criteria and so adversely impacted the annual SAIDI results.³⁵

14 Despite this statement in the 2006 System Performance Programs Report,
15 there is no evidence that such analysis or targeted additions and modifications
16 were actually identified or implemented. Furthermore, this same report
17 documents that the vegetation management program (tree trimming, etc.) targeted
18 fewer distribution and transmission miles in each of the recent years (reduced
19 from 2,198 miles in 2004 to 1,656 miles in 2006).³⁶ It is certainly possibly that a

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.

1 formal root cause analysis could conclude that the reductions in the vegetation
2 management program contributed to the SAIDI performance failures.

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

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

11 **Q: What change in the SQI penalty structure do you recommend be**
12 **implemented to respond to PSE’s failure to meet the SAIDI standard for two**
13 **consecutive years and the risk that the proposed sale of PSE may continue**
14 **this trend in deterioration in service?**

15 A: I recommend that any failure to meet the annual performance standard for any
16 metric should require PSE to submit an enforceable compliance plan that
17 demonstrates how the Company will meet the standard the following year. This
18 compliance plan should have specific milestones and reporting requirements to
19 demonstrate progress in meeting the standard.

20 Second, the penalty structure should reflect a higher level of penalty when
21 the performance standard is not met for two consecutive years. I recommend that
22 the otherwise applicable penalty dollars be doubled for the second consecutive
23 failure. Any such penalty that is incurred pursuant to this proposal would be in

1 addition to the maximum \$15 million penalty at risk. If this additional penalty
2 had been in place for 2007, PSE would have incurred an additional penalty of
3 approximately \$500,000. I recommend that PSE be penalized at least this amount
4 either through a disallowance from PSE's revenue requirement in the GRC
5 proceeding or as a separate one-time penalty payment to customers. This
6 recommendation reflects PSE's failure to meet SAIDI for two consecutive years
7 and because PSE's response to the 2006 and 2007 failure has been inadequate.
8 This penalty or disallowance is appropriate due to PSE's failure to take the
9 continuing failure to meet the SAIDI standard seriously and develop and
10 implement a formal compliance plan.

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

14 A: Yes. The current SQI does not provide any incentive to PSE to restore power
15 promptly during major storms because any significant storm results in those
16 events and outage minutes are excluded from the SAIDI and SAIFI calculations.
17 I acknowledge the purpose of these exclusions, but the failure to meet SAIDI in
18 the last two years and my testimony in the GRC proceeding concerning PSE's
19 lack of investment in certain "best practices" for emergency storm preparedness
20 and restoration processes suggest that an additional approach be considered to
21 create an incentive for prompt restoration of service after storm outages. In other
22 words, there is no performance standard in effect by which customers can be
23 assured that service will be restored promptly when there is a "major" storm or

1 other outage event excluded from the measurement of SAIFI and SAIDI. From
2 the customer's perspective, an outage is an outage whether due to a local
3 transformer failure, common thunderstorm, or a "major" storm.

4 I recommend that the Commission add another provision to the existing
5 Customer Guarantee Program³⁷ that is based on a requirement in effect in
6 Michigan.³⁸ PSE should be required to provide an individual customer with a
7 credit of \$50 when power is not restored within 120 hours (five days) after an
8 interruption of service that occurs due to a major storm. Any payments for
9 customers pursuant to this policy should not be recovered from ratepayers. Any
10 exception to this policy should only occur when PSE has sought and obtained a
11 specific waiver from the Commission due to an extraordinary event that prevented
12 compliance with this policy.

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

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

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/ort/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

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

2 A: Yes. I recommend that PSE track and report MAIFI where SCADA⁴¹ systems
3 enable this data to be obtained, although I do not recommend that any penalty
4 dollars be attached to a specific performance level at this time.

5 **Q: Please discuss PSE's call answering performance.**

6 A: For 2005, 2006, and 2007, PSE reports that it has met the annual average call
7 answering standard of answering 75 percent of the calls that seek to speak with a
8 customer representative within 30 seconds. That is, in each of those years, PSE
9 has reported their performance results at exactly 75 percent. PSE has a high rate
10 of calls handled by the automated Voice Response system: 48 percent in 2006 and
11 42 percent in 2007 of all incoming calls were handled through the automated
12 menu and did not require an "answer" by a representative.⁴² This should allow
13 PSE to answer more calls at a faster rate, but the range of monthly call answering
14 performance is very wide—and is particularly poor in the early months of the year
15 (winter) and much better in the summer. For example, in early 2007 PSE only
16 answered 39 percent (January), 48 percent (February), and 50 percent (March) of
17 the calls within 30 seconds. The same pattern of very poor performance in these
18 months is evident in 2006.⁴³

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.

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. 82, Attachment A. See also PSE Response to Public Counsel Data Request No. 138.

⁴³ PSE Response to Public Counsel Data Request No. 652, Attachment A.

1 PSE staffs its call center with a mixture of “on-site” representatives and
2 those that work from their homes. A monthly average of 165 representatives was
3 physically present at the call center in 2007. A monthly average of 19 worked
4 from home. However, the number of those who worked at home increased each
5 month in 2007, reaching 27 per month for the period August through December
6 2007.⁴⁴

7 PSE also tracks additional call answering performance metrics, but these
8 metrics are not part of the SQI, nor are they included in PSE’s annual service
9 quality reports to the Commission. PSE records the Average Speed of Answer for
10 customer calls, e.g., the average number of seconds or minutes to answer each
11 call. In 2006 this was 50 seconds and in 2007 this was 63 seconds, indicating a
12 deteriorating level of service quality that is not reflected in the annual average of
13 calls answered over 30 seconds. Finally, PSE has a fairly high “abandonment
14 rate,” the percentage of callers who abandon their call after joining the queue:
15 5.65 percent in 2006 and lower at 3.8 percent in 2007. PSE does not track or
16 know the “busy out rate,” the rate at which callers encounters a busy signal and
17 thus are unable to even get into the queue.⁴⁵ This is important because it is
18 possible that during busy hours, such as during widespread outages, customers
19 cannot get through to PSE at all and even join the queue. These calls are not being
20 captured in the call answering performance areas that are measured in the SQI.

⁴⁴ PSE Response to Public Counsel Data Requests Nos. 106, 492, and 624.

⁴⁵ PSE Response to Public Counsel Data Request No. 82, Attachment A. See also PSE Response to Public Counsel Data Request No. 83.

1 PSE can obtain this information from the phone service provider and it is a metric
2 that is included in some service quality performance plans elsewhere.

3 **Q: What recommendation do you make to change the current SQI to respond to**
4 **the erratic performance of the call center and the risk that customer service**
5 **will deteriorate even further under this proposed transaction?**

6 A: With respect to metrics that measure call answering performance, I recommend
7 that the current metric be changed from an annual standard to a quarterly
8 standard. This would require PSE to answer 75 percent of customer calls within
9 30 seconds for each quarter. Each quarter's performance should carry a
10 maximum penalty equal to one-fourth of the annual penalty at risk for this
11 performance area. It is clear that PSE's performance reflects significant swings in
12 performance level and that the Company is allowing poor performance in early
13 months to be offset by better performance later in the year when the monthly
14 performance indicates that the annual standard will not be met. Customers
15 deserve a more acceptable level of performance throughout the year. Finally, I
16 recommend that PSE be required to report on its monthly and annual call
17 abandonment rate and busy out rate as part of its annual SQI report, although I do
18 not recommend any penalty dollars associated with these reporting metrics at this
19 time.

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

22 A: Pursuant to previous approval by the Commission, customers are informed of the
23 annual service quality results and the dollar amount of any penalty that results for

1 the failure to meet a performance standard in a PSE “report card” to customers.

2 The penalty dollars are credited to the Electric Conservation Service Tracker as an
3 offset to the tariff rider account.

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

6 A. Yes. I recommend that SQI penalty dollars be returned directly to customers in
7 the form of a one-time bill credit that is appropriately identified on customer bills
8 as a result of a service quality failure. PSE’s customers should see the results of
9 the SQI performance as a direct reduction in their overall rates. While I do not
10 suggest that anything incorrect has occurred in the prior method of handling SQI
11 penalty dollars, it is appropriate that the customers be informed of the impact of
12 SQI failures directly since one of the key purposes served by the SQI mechanism
13 is to link the rates that customers pay with PSE’s customer service performance.
14 Furthermore, the current method of applying any SQI penalty dollars to the
15 Electric Conservation Service Tracker is complicated and confusing because of
16 the need to assure that shareholders and not ratepayers bear responsibility for any
17 SQI penalty payments to customers.

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

20 A: PSE does track customer satisfaction with its service provider contractor services
21 and reports these results to the Commission annually in a Service Provider
22 Report. The results of customer satisfaction with new customer construction
23 dropped dramatically in 2007 compared to 2006, which PSE attributes in part to

1 the volume of storm recovery work that took precedence over new service
2 installation. PSE has developed customer satisfaction level objectives or targets
3 for their contractors, but these targets were not met in 2007. Furthermore, the
4 target satisfaction levels are different, 83 percent for the gas contractor and only
5 75-78 percent for the electric construction contractor.⁴⁶ The current SQI, in
6 contrast, requires that the transaction-based customer satisfaction survey results
7 show a 90 percent customer satisfaction performance. In fact, when the SQI was
8 modified as part of the 2002 PSE rate case settlement, all three customer
9 satisfaction measures were set at 90 percent. However, the survey results for new
10 customer installation reflected in these Service Provider reports are not reflected
11 in the SQI customer satisfaction transaction surveys.⁴⁷

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

14 A: I recommend that PSE be required to include penalties in its outside contractor
15 agreements so that the failure to meet customer satisfaction targets is linked to
16 payments to the contractors. With respect to the proper customer satisfaction
17 targets, there is no reason why these satisfaction targets should be any different
18 than those already applicable to PSE in the SQI for its field operations, i.e., 90
19 percent. PSE should then report on any penalties incurred in its outside contractor
20 agreements to the Commission as part of the current Service Provider Reports that
21 are filed annually. Any penalty dollars paid for substandard contractor

⁴⁶ PSE Response to WUTC Staff Data Request No. 164.

⁴⁷ PSE Response to WUTC Staff Data Request No. 187.

1 performance will result in lower costs incurred by PSE for the contracted services,
2 in effect providing a benefit to PSE because the expected costs for these
3 contracted services are reflected in the revenue requirement. In the event that
4 contractor performance results in penalties, any penalties should be added to any
5 penalty dollars incurred by PSE under the SQI and paid to customers. This
6 approach will ensure that shareholders bear the risk of any poor performance by
7 PSE's contractors.

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

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

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

1 2007.⁴⁸ PSE's response to electric safety calls shows a similar deterioration in
2 performance.

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

5 A: Yes. I think that the annual average of 55 minutes allows a much broader range
6 of acceptable performance than should be permitted for responding to safety calls,
7 particularly with natural gas service. I recommend that the performance standard
8 require PSE to answer 95 percent of such calls within 60 minutes. According to
9 one natural gas utility in Pennsylvania, this is an "industry average" for natural
10 gas utilities. In addition, this standard is in effect for Massachusetts natural gas
11 utilities.⁴⁹

12 **V. PSE'S LOW INCOME PROGRAMS: PROPOSED CONDITIONS**

13
14 **Q: Please describe PSE's low income bill payment assistance program.**

15 A: PSE's HELP program served approximately 18,000 low-income residential
16 customers in 2007 (approximately 14,000 electric customers and 6,000 gas
17 customers, but note that approximately 2,300 HELP customers are dual fuel PSE
18 customers). The average 2007 electric benefit was \$373 and the average gas
19 benefit was \$344. The total dollar amount of HELP electric bill payment
20 assistance was \$5.2 million. The total dollar amount of HELP gas bill payment

⁴⁸ PSE Response to Public Counsel Data Request No. 672, Attachment A.

⁴⁹ 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>.

1 assistance was \$2.2 million, resulting in total HELP benefits equal to
2 \$7,501,705.⁵⁰ In addition, administrative and enrollment costs were \$1.8 million.
3 The costs of this program are recovered from all customers through PSE's electric
4 and gas tariff rider Schedules 129. PSE customers are qualified for HELP based
5 on the same household income guidelines that are used by LIHEAP, which in
6 Washington is 50 percent of the area's median household income, with an upper
7 bound cap of 150 percent of federal poverty guidelines and a lower bound of 125
8 percent of federal poverty guidelines, depending on the local area's median
9 household income. As a practical matter, this means that the eligibility criterion
10 for LIHEAP and HELP is 125 percent of the federal poverty guidelines in PSE's
11 service territory. I should point out that Washington's LIHEAP criteria are
12 below the maximum allowed by federal law which is 150 percent of federal
13 poverty guidelines.

14 The HELP benefit is calculated by the local community action agencies
15 who deliver LIHEAP. The benefit reflects a formula that takes into account the
16 customer's household income and energy usage and attempts to target larger
17 benefit amounts to those with the most significant energy burden, i.e., the largest
18 disparity between the actual bill and the customer's ability to pay the bill. The
19 benefit is provided in the form of a lump sum benefit on the customer's bill,
20 similar to the manner in which the LIHEAP benefit is applied to the customer's
21 bill.

⁵⁰ PSE Response to Public Counsel Data Request No. 689, Attachment A.

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

4 A: PSE does not know what percentage of low-income customers are served by
5 HELP. Furthermore, PSE has not done any evaluation of the effectiveness of the
6 HELP program in terms of impact on affordability and retention of service.
7 PSE's reports on this program do not reflect any analysis of HELP's impact on
8 regular bill payment, keeping payment plans, or avoiding disconnection of
9 service.⁵¹ Nor has PSE done an analysis of HELP on PSE's customer collection
10 costs, including bad debt expense.⁵²

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

12 A: According to a recent report on Washington state energy needs, done by Apprise,
13 Inc. for the Washington Office of Community Trade and Economic
14 Development,⁵³ 14 percent of all households in Washington have a total household
15 income at or below 125 percent of the federal poverty level and an additional 4
16 percent of all households have an income between 125 percent and 150 percent of
17 the federal poverty level. Of these households, 72 percent of the households in
18 Washington with income at or less than 125 percent of the federal poverty level
19 have an energy burden that is greater than 5 percent of their annual household
20 income and 46 percent of these households have an energy burden greater than 10
21 percent of income. With regard to PSE's low-income households, the report

⁵¹ PSE Response to Public Counsel Data Request No. 472.

⁵² PSE Response to Public Counsel Data Request No. 471.

⁵³ Washington State Energy Needs: Final Report (December 2007). Available at www.appriseinc.org.

1 estimated that 73 percent had a household energy burden in excess of 5 percent
2 and 49 percent had an energy burden at 10 percent or more. Such households
3 would have to allocate 10 percent of their household income to pay for vital and
4 essential electric and gas service.

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

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

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

1 A: Of course. The credit and mortgage crisis and the crushing burden of just paying
2 for gasoline and food are beginning to ripple through the economy. Job losses or
3 lack of growth in employment, increased applications for Food Stamps and other
4 financial assistance programs are indicators of the impact these economic trends
5 are likely to have on the ability of PSE's low-income customers to pay for and
6 retain essential electricity and natural gas service. For example, the Washington
7 Economic and Revenue Forecast Council's February 2008 Forecast documented
8 the decrease in housing starts and rising unemployment rate.⁵⁴

9 **Q: What is your response to the Joint Applicants' proposal to continue the**
10 **current funding level for PSE's low income programs as a commitment in**
11 **this proceeding?**

12 A: A continuation of current funding for HELP is not sufficient. The historical
13 practice of linking increased HELP funding to the percentage increase in rates at
14 the time of a base rate case does not respond to the sale transaction at issue here.
15 Furthermore, this approach is an insufficient method to establish the funding level
16 for this program. HELP funding should also be increased beyond that level to
17 begin to assure a steady progress in reaching out and enrolling qualified low-
18 income customers into this program.

19 I recommend that the Commission should approve an approach that
20 focuses on increasing the enrollment of qualified HELP customers over a several
21 year period. PSE can recover the actual costs associated with any level of HELP
22 enrollment and reset the ratepayer recovery mechanism to reflect actual costs. As

⁵⁴ This report is available at the ERF website: www.erfc.wa.gov.

1 a condition of the approval of this transaction, I recommend that PSE be
2 authorized to file for a change in the Schedule 129 HELP cost recovery surcharge
3 no more than once per year and that the Commission authorize cost recovery for a
4 total increase in customer participation of approximately 5,000 new HELP
5 customers over the 2007 program performance of 18,087. Furthermore, I
6 recommend that PSE establish a priority to increase its enrollment of electric low-
7 income customers. Based on the current average electric benefit of \$373,
8 additional HELP benefits for 4,500 electric customers would cost approximately
9 \$1.68 million. Based on the average gas benefit of \$344, HELP benefits for an
10 additional 500 gas customers would cost approximately \$173,000. My
11 recommendation is intended to focus primarily on low-income electric customers
12 since they have the greatest energy burden and there are fewer low-income gas
13 customers served by PSE.

14 In conclusion, the new owners of PSE should commit to an increase in the
15 total HELP budget to reflect (1) the percentage of any future residential rate
16 increase approved by the Commission; (2) the new enrollment objectives
17 described above so that the program can grow to meet the needs of low income
18 customers; and (3) the proportional administrative and program costs associated
19 with the implementation of this increased enrollment.

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

22 A: PSE provides funding for cost-effective home weatherization measures for low-
23 income gas and electric heat customers. Funds are used for single-family,

1 multifamily, and mobile home residences. The participants in this program are
2 referred by the low-income and crisis service agencies and qualification is done
3 by the same agencies that operate the U.S. Department of Energy Weatherization
4 Program. PSE recently has agreed to increase the amount paid for the various
5 measures that are installed under these programs, a welcome development since
6 the reimbursement rates for these measures had not changed in many years and
7 the older rates do not reflect the increased cost of materials, labor and
8 transportation for these programs. However, the overall budget has not increased
9 to reflect these increased payments for the weatherization measures.

10 Prior to 2007, PSE spent an average of \$2.2 million for this program as
11 part of a large and very robust energy efficiency and conservation budget.⁵⁵ In
12 general, PSE's energy efficiency program funding has increased significantly for
13 residential and commercial customers, but the comparable level of increase has
14 not been implemented for the low-income programs. PSE has increased energy
15 efficiency program funding from \$18.7 million in 2003 to \$35.4 million in 2006,
16 an 89 percent increase. However, the funding for the low-income program
17 essentially remained level during this same period.

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

19 A: No. The flat funding for this program does not reflect the underlying increases in
20 prices charged for electricity and gas service by PSE since 2003 with the constant
21 filing of base rate and fuel price increases. Nor does this level of funding reflect

⁵⁵ 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.

1 the impact of PSE's intent to provide additional financial support for the various
2 measures allowed to be paid for by this program. PSE's Response to Public
3 Counsel Data Request No. 92 states that the Company filed an updated measures
4 list in April 2008, pursuant to Section 2 of the Company's conservation tariffs,
5 based on an analysis of the cost effectiveness of the weatherization measures
6 included in the program. According to this data response, this update resulted in
7 an increase in the low-income weatherization (LIW) measure payment levels by
8 45.8 percent for electric (over prior levels) and by approximately 45 percent for
9 gas (in total). Therefore, it would be necessary to increase the current level of
10 funding by approximately 45 percent just to reflect the increased cost of these
11 existing measures.

12 While it is no doubt appropriate to increase payments for these measures
13 due to the underlying costs incurred by the weatherization contractors and the
14 cost-effectiveness of the new guidelines, the ultimate result is that a flat level of
15 funding will reduce the number of homes that can be weatherized. Finally, this
16 flat level of funding does not reflect the impact of higher prices likely to come
17 from implementation of Washington's green house gas and carbon legislation and
18 the growing indicators of an economic recession. All of these factors will put
19 significant pressures on low-income families to afford the basic necessities of
20 electricity and natural gas service and suggest that PSE should increase the
21 funding for low-income weatherization programs.

22 **Q: Please describe the additional funding for low income energy efficiency that**
23 **was provided as a result of the Puget/Washington Natural Gas merger.**

1 A: As part of its discussions with representatives of low income agencies and
2 advocate organizations, PSE agreed to a \$5 million contribution from its
3 shareholders for low-income energy efficiency programs over a five year period
4 (1998 through 2002). This funding was in addition to tariffed funding for this
5 purpose. This valuable contribution was used to greatly expand the number of
6 weatherization “jobs” that could otherwise have been done using the tariffed
7 funding during this time period. A total of \$2.9 million was used for electric low
8 income customer weatherization measure installation and \$1.27 million for low
9 income gas customer weatherization measures, with the balance allocated to other
10 administrative purposes.⁵⁶

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

13 A: I have two recommendations, both of which are intended to increase funding for
14 low income energy efficiency and weatherization programs. First, I recommend
15 that PSE increase its ratepayer funding for the low-income energy efficiency
16 program by \$1.5 million each year beyond PSE’s current budget for the 2008-
17 2009 biennium. Due to the increased cost of the approved low-income measures,
18 this is actually only a \$500,000 increase in the total budget for this program.
19 Second, it would be reasonable and I recommend that the Commission require as
20 a condition for approval of this proposed sale of PSE for an additional shareholder
21 contribution to the low-income energy efficiency programs in the amount of \$7.25

⁵⁶ PSE confirmed this arrangement and provided background information on how the funds were allocated and spent in PSE’s Response to Public Counsel Data Request No. 570 (with attachments).

1 million over five years, similar to the contribution that PSE made to this effort in
2 1997. This amount is calculated with a 45 percent increase from the 1997
3 contribution to account for the increased cost of the approved low-income
4 weatherization measures. In both cases, PSE should work with the provider
5 agencies to develop a plan to implement this increased level of funding over a 12-
6 24 month period.

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

8 **A:** Yes.