

**EXHIBIT NO. ___(SML-1T)
DOCKET NO. U-072375
2007 MERGER PROCEEDING
WITNESS: SUSAN MCLAIN**

**BEFORE THE
WASHINGTON UTILITIES AND 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

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

JULY 2, 2008

PUGET SOUND ENERGY, INC.

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
SUSAN MCLAIN**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3 **SUSAN MCLAIN**

4 **I. INTRODUCTION**

5 **Q. Will you please state your name and business address?**

6 A. My name is Susan McLain. My business address is 10885 N.E. Fourth Street,
7 Bellevue, WA 98004.

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

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

11 **Q. Have you prepared an exhibit describing your education, relevant**
12 **employment experience, and other professional qualification?**

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

14 **Q. What are your duties as Senior Vice President Operations for PSE?**

15 A. I am responsible for all activities associated with the design, construction,
16 operation and maintenance of PSE's electric and gas delivery systems. This
17 includes: Gas Operations, Electric Operations, Customer Construction Services,
18 Project Management, Engineering and Contractor Management. Additionally, I

1 am responsible for the selling of excess bulk transmission services as well as
2 purchasing, materials and fleet services for the Company.

3 **Q. Please summarize the purpose of your rebuttal testimony.**

4 A. This rebuttal testimony responds to the testimony of Ms. Barbara Alexander on
5 behalf of Public Counsel and the Energy Project (the “Joint Parties”). Ms.
6 Alexander claims that aspects of the Proposed Transaction may adversely affect
7 customer service, and she proposes conditions with respect to service quality that
8 she believes should be imposed if the Commission approves the Proposed
9 Transaction. Although the Joint Applicants disagree with Ms. Alexander’s
10 contention that the Proposed Transaction creates risks with respect to service
11 quality and customer service, I describe additional merger commitments the Joint
12 Applicants offer in order to provide additional assurances that service quality will
13 not erode because of the Proposed Transaction.

14 **II. ADDITIONAL COMMITMENTS REGARDING**
15 **SERVICE QUALITY INDICES**

16 A. **Overview of Factors to Consider When Evaluating Customer Service**
17 **Levels**

18 **Q. Before you address Ms. Alexander’s recommendations with respect to**
19 **service quality, please describe the factors that you believe should be**
20 **considered when evaluating customer service and service quality measures.**

21 A. Identifying a meaningful set of customer service measures is critically important

1 to PSE. Each measure indicates activities in areas where PSE will focus time,
2 energy, financial and human resources. Because such resources translate into
3 costs and the ultimate rates customers are charged, it is essential the Company
4 ascertain customers' interests and perceived value for the services that are
5 proposed to be measured.

6 Agreeing to well-intentioned but not fully vetted proposals by the Energy Project
7 and Public Counsel may not be in customers' best interest. As discussed in a
8 report commissioned by The Detroit Edison Company in cooperation with the
9 Michigan Public Service Commission Staff, *Service Quality Regulation for*
10 *Detroit Edison: A Critical Assessment* (the "Detroit Edison Report"), preferences
11 differ among customers, as do their willingness to pay for quality. Please see
12 Exhibit No. ___(SML-3) for a copy of the Detroit Edison Report. In the
13 competitive marketplace firms can differentiate both quality and price to meet
14 various customer preferences. However, the same forces do not operate so well in
15 a regulated marketplace. The Detroit Edison Report further elaborates on the
16 potential risk of establishing "stretch" goals in regulated service quality metrics,
17 as they may not be in the collective customers' interests because the collective
18 customer base may not be willing to pay for these higher levels of service.

1 **B. SQI Recommendations of the Joint Parties**

2 **Q. Do you agree with Ms. Alexander’s assertion that the Proposed Transaction**
3 **heightens the risk of service deterioration?**

4 A. No. The Joint Applicants have committed to continue with the service quality
5 measures currently in effect and to maintain the current management team, which
6 places a high priority on customer service and service quality. I do not anticipate
7 any decrease in customer service or service quality as a result of the Proposed
8 Transaction. My goal is for service quality to continue to improve.

9 **Q. Do you agree with the recommendations proposed by the Energy Project,**
10 **Public Counsel and Commission Staff relative to the Service Quality Indices**
11 **(“SQI”)?**

12 A. As is described above, without sufficient and reliable input from customers it is
13 difficult to determine whether the recommendations proposed by the Joint Parties
14 are the highest priority customer service initiatives when cost and service quality
15 is considered. PSE proposes the parties work collaboratively to obtain needed
16 input from customers and develop SQIs and revisions to SQIs that customers
17 genuinely value. I agree with the Joint Parties that there are opportunities to
18 improve the customers’ experience with PSE. However, these improvements
19 should be based on customer priorities and balance the relationship between
20 service quality and cost.

1 **Q. Are the Joint Applicants offering any additional commitments with respect**
2 **to service quality and customer service, other than the commitments offered**
3 **in the prefiled direct testimony?**

4 A. Yes, the Joint Applicants offer the following three specific commitments, which
5 would become effective at the start of the next SQI reporting year, January 1,
6 2009.

- 7 1. increase the total annual SQI penalty amount to \$15
8 million,
- 9 2. establish a billing accuracy/timeliness SQI, and
- 10 3. convene a collaborative with Commission Staff, Public
11 Counsel and other interested parties (“Interested Parties”),
12 to review the entire SQI program, and propose a modified
13 program to the Commission for implementation on January
14 1, 2009.

15 **Q. What is the Joint Applicants’ commitment regarding the total annual SQI**
16 **penalty amount?**

17 A. As an additional merger commitment, the Joint Applicants agree that the total
18 annual SQI penalty amount should be increased to \$15 million from \$10 million
19 as was proposed in Exhibit No. ___(BRA-1TC) at page 23, line 11.

20 It is important to note that the Company has strong incentives to put plans in
21 place to meet these important customer service benchmarks. In addition to
22 monetary fines, other incentives include:

- 23 1) A genuine desire to meet customers’ expectations and
24 needs,

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- 2) A requirement to report to customers that PSE did not meet their expectations, and
- 3) Media coverage regarding PSE’s failure to meet customer expectations.

Q. Are there other mechanisms the Commission could consider to encourage high quality customer service?

Yes, as discussed in the Detroit Edison Report, symmetric incentive plans, which provide both penalties and bonuses, not only focus a company’s attention on maintaining service quality, but also encourage service quality improvements. The Joint Applicants believe there may be merit in this approach and would suggest this concept be explored during an extensive collaborative review of the SQIs, which is covered later in my testimony

Q. What is the Joint Applicants’ commitment regarding the billing accuracy/timeliness SQI?

A. As observed in the Detroit Edison Report, a number of states and utilities have metering and/or billing service quality indicators. *See* Exhibit No. ___(SML-3) at page 70, Table 7. Additionally, on page 12, the report recommends billing service quality indicators over metering indicators since the former reflects the quality of service that customers experience directly.

PSE is currently focusing significant resources on process improvement in this area, as its billing practices are a touch point with each and every customer.

1 Therefore, the Joint Applicants propose an SQI that targets both billing accuracy
2 and timeliness.

3 PSE wants to have the vast majority of its bills issued in an accurate and timely
4 manner. As a consequence, the metric would require that no more than a fraction
5 of a percent of bills would be older than 120 days, unless the failure to issue a
6 timely and accurate bill is the result of a non-utility condition (such as energy
7 diversion or lack of meter access).

8 The proposed calculation is as follows: bills delayed due to a utility reason older
9 than 120 days divided by number of customers. The number of bills that would
10 “count” in the Billing Performance Program would include any bill that is delayed
11 due to a utility reason, such as stopped meters, lost meters, Company back-office
12 processes, etc. For consistency, the number of customers would be the same
13 customer count used to measure the disconnect ratio SQI.

14 Because PSE is currently implementing process improvement steps, the Joint
15 Applicants commit to the following SQI benchmarks, to be tightened over the
16 following period:

- 17 ▪ First four months 1.50% of bills no older than 120 days
- 18 ▪ Next four months 1.00% of bills no older than 120 days
- 19 ▪ Next four months 0.75% of bills no older than 120 days
- 20 ▪ 2010 SQI Year 0.50% of bills no older than 120 days

21 Starting in the 2010 SQI Year, the metric would become one of the SQIs subject
22 to penalties and the \$15 million maximum amount would be spread evenly over

1 all metrics subject to penalties.

2 **Q. What is the Joint Applicants' commitment regarding a collaborative review**
3 **of the SQIs?**

4 A. The Joint Applicants agree with the Joint Parties that there are opportunities to
5 improve the customers' experience with PSE. However, these improvements
6 should i) be based on customer priorities and ii) balance the relationship between
7 service quality and cost.

8 As pointed out in the Detroit Edison Report, in establishing service quality two
9 related but distinct questions must be examined. (1) Is the current service quality
10 adequate, given the business conditions and the costs it incurs to deliver this level
11 of quality? This question focuses on the company's performance in delivering
12 service quality and is equivalent to examining the "supply side" of the service
13 quality provision. (2) Is the company providing levels of service quality that its
14 customers expect and demand? This question is the "demand side" of the
15 marketplace, which depends on customers' preferences and their willingness to
16 pay for quality.

17 PSE does not operate in a completely competitive marketplace where it can
18 differentiate both quality and price to meet various customer preferences.

19 Therefore, careful consideration must be given to the service quality demands of
20 the collective customers' interests. The Joint Applicants propose a collaborative

1 process with Interested Parties under the following terms to deliberate on
2 potential modifications to the SQI program.

3 The Company will use an outside third party or parties to assist in the collection
4 of customer input, helping it and the Interested Parties define the balance between
5 service quality and cost.

6 It is important that the process of the review be both independent and transparent.

7 To that end, Interested Parties, including any consultants hired by Interested
8 Parties, may participate in:

- 9 • reviewing the scope of the customer input to be gathered,
- 10 • determining the SQIs to be modified, developed and/or eliminated,
- 11 • determining the methodology for SQI data collection and calculation,
- 12 • determining the establishment of targets,
- 13 • determining modifications to the format of reports and/or filing
14 requirements,
- 15 • determining penalties and/or rewards, and
- 16 • determining formats for customer communications.

17 Interested Parties will be invited to all conferences between the consultant(s) and
18 PSE. Interested Parties will be notified in advance of any meetings between the
19 Company and any consultant. Additionally, all documents circulated to PSE for
20 comment and all drafts of reports or correspondence between PSE and any
21 consultant pertaining to the SQI program will be made available to Interested
22 Parties.

1 The Joint Applicants commit to a maximum expenditure of \$1 million associated
2 with this effort and will begin its work in advance of a decision on this
3 proceeding. It is PSE's intent to complete the review of the SQI program before
4 the end of the year, 2008. However, PSE will not be prohibited from filing a
5 general rate case or a power cost only rate case prior to the completion of the
6 collaborative. The Company will work to develop a program that is endorsed by
7 the Interested Parties, and more importantly, is responsive to the collective
8 requirements of its customers.

9 By November 1, 2008 the Company will submit a final proposal to the
10 Commission on revisions to the Company's SQI program for implementation on
11 January 1, 2009. If there is a dispute about the content or implementation of the
12 revised program, all parties will present the issue(s) to the Commission for
13 resolution. Once it is approved by the Commission, PSE will implement the
14 program.

15 **Q. Why is a collaborative needed?**

16 A. The current SQIs were developed more than ten years ago as a part of the merger
17 between Puget Sound Power and Light Company and Washington Natural Gas
18 Company. The SQIs underwent some modifications during PSE's 2001 general
19 rate case but otherwise have not changed. It makes sense to revisit the SQIs at
20 this time, given such factors as changing demographics, changes in PSE's service

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territory, expansion of PSE's delivery system, and the Company's increased

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abilities to measure service performance.

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III. CONCLUSION

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Q. Does that conclude your prefiled rebuttal testimony?

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A. Yes.