

EXHIBIT NO. _____ (GBS-1T)
DOCKET NO. _____
2001 PSE INTERIM RATE CASE
WITNESS: GARY B. SWOFFORD

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DIRECT TESTIMONY OF GARY B. SWOFFORD
ON BEHALF OF PUGET SOUND ENERGY, INC.

DECEMBER 3, 2001

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PUGET SOUND ENERGY, INC.

DIRECT TESTIMONY OF GARY B. SWOFFORD

I. INTRODUCTION

Q: Please state your name, business address and present position with Puget Sound Energy, Inc.

A: My name is Gary B. Swofford. My business address is One Bellevue Center, Suite 1500, 411 – 108th Ave. N.E., Bellevue, Washington 98004. I am the Vice President and Chief Operating Officer – Delivery for Puget Sound Energy, Inc. ("PSE" or "the Company").

Q: What do your responsibilities as Vice President and Chief Operating Officer – Delivery include?

A: I have overall responsibility for the Delivery business at PSE including Delivery Operations and Delivery Customer services and electricity ("Delivery Business").

Q: What is your educational and professional experience?

A: My professional and educational background are set forth in Exhibit GBS-2.

Q: What is the purpose of your testimony?

A: I will describe the adverse consequences on the Company's delivery business of not granting the Company's Petition for Deferral of Unrecovered Power Costs and its Petition for Interim Relief.

Q: Would you please summarize your testimony?

A: The Company's need for interim relief relates to the wholesale markets. Further reducing costs and changing service quality in PSE's delivery business will do nothing to solve that problem, and will create problems in the delivery business. We are in a unique position regarding operating costs because of our unique corporate strategy. As

1 the result of very focused efforts, PSE has striven to lower its operations and
2 maintenance costs per customer to the lowest level possible over the past five years.
3 We are currently the second lowest cost distribution company in the nation. Without
4 changing the service we provide, PSE has little or no ability to reduce its overall
5 operations costs because we have spent the last five years targeting the lowest possible
6 costs while still providing excellent service. Cost reduction cannot be accomplished in
7 the abstract, and involves service consequences to our customers.

8 II. PUGET'S COST REDUCTION

9 **Q: How has PSE reduced costs over the past several years to become the nation's**
10 **second lowest cost distribution company?**

11 A: PSE utilizes an O&M cost per customer benchmark to measure its cost performance.
12 This benchmark measures all costs associated with running the distribution and customer
13 contact aspects of our business, and includes all administrative and general expenses. It
14 excludes capital, depreciation and energy supply costs. We have significantly reduced
15 our cost per customer over the past several years, from \$187 per customer in 1995 to
16 \$155 per customer in 2000. Looking at the electric costs in isolation, we dropped from
17 \$210 to \$187 per customer during this time period, and the gas costs in isolation
18 dropped from \$146 to \$105 per customer.

19 **Q: Please describe some specifics of PSE's successful focus on costs?**

20 A: Since the merger, we have centralized administrative functions, which has eliminated the
21 need for duplicative positions, reduced office space requirements and other
22 administrative overhead.

23 We have successfully implemented full-time employee ("FTE") reductions by
24 combining the two prior companies into a synergistic whole, rather than simply running
25 gas and electric as two separate internal divisions, and by employing efficient practices
26 in our approach to work processes, including the outsourcing of some administrative

1 work such as employee benefits plan administration. PSE has also outsourced
2 numerous positions associated with construction and maintenance of its gas facilities and
3 is continuing its traditional approach of contracting out some of our electrical work while
4 we work with the IBEW on electrical outsourcing issues. Total Company staffing
5 (including energy supply personnel) has dropped from 3,367 FTEs at PSPL and WNG
6 in 1995 to 2,606 FTEs on June 30, 2001 for PSE.

7 We have also reduced workspace by 37 locations throughout our service
8 territory. The total net reduction of space is approximately 346,923 square feet, even
9 after the addition of the Bothell Access Center and the construction of the Kitsap
10 Service Center.

11 **Q: Has PSE's focus on costs benefited administrative and general costs?**

12 A: Yes. PSE's general control of costs has resulted in significant savings in that area.
13 PSE's year 2000 A&G costs were \$68.7 million, as compared to A&G costs for PSPL
14 and WNG of \$90.3 million in 1995. This is a reduction of \$21.6 million, or 24%, in
15 nominal dollars over this five-year period, or 33% taking into account inflation.

16 **III. PSE'S CURRENT FINANCIAL PROBLEMS ARE DUE TO**
17 **THE WHOLESALE MARKET, NOT EXCESSIVE COST IN THE**
18 **DELIVERY BUSINESS**

19 **Q: How would cost reductions in the delivery business offset the need for**
20 **collecting unrecovered power costs?**

21 A: They can't because they would not be great enough and would involve service changes.
22 Most of our expenditures are unavoidable because they must be made to provide
23 services required by law or contract, including our tariffs and franchises, or because
24 they are for public safety.

25 Additionally, short-term spending cuts or deferrals would have the adverse
26 impact of deteriorating customer service and system reliability while at the same time
increasing costs in the longer-term. For example, if PSE deferred its normal TreeWatch

1 and vegetation management programs, it would temporarily defer costs of
2 approximately \$15 million over the next year. However, such deferral would increase
3 costs over the long run and decrease reliability. A one-year deferral in vegetation
4 management does not typically impact customers in the year in which the deferral is
5 made. But since the deferral lengthens the overall tree-maintenance schedules (i.e.,
6 trimming is performed on a seven-year cycle rather than a six-year cycle), the number of
7 outages and incrementally higher costs are experienced in later years. Our engineers
8 estimate customers would experience over 400 additional outages in 2003 as a result of
9 a deferral in vegetation management practices in 2002. There would be a
10 corresponding continued higher trend until such time as we are able to return to our
11 normal tree-trimming cycles.

12 A 1997 Deferred Utility Tree Maintenance study conducted by Environmental
13 Consultants, Inc., as published in *Arborist News Magazine*, April 1997, shows that for
14 every dollar (\$1.00) deferred, from \$1.16 to \$1.27 will be needed to perform the same
15 work in the following year and each subsequent year until the utility is back on its normal
16 trimming cycle. A copy of this article is attached at Exhibit GBS-3.

17 Similarly, PSE had planned to construct a number of projects in 2002 to
18 address capacity constrained gas areas by making capital expenditures in Covington,
19 Gig Harbor, Lacey, Kayak Point/North Marysville, North Beach, South Hill Puyallup,
20 Orting, Lake Tapps, Clearview, Brown's Point, Silver Firs, Mill Creek and Chehalis.
21 Eliminating these expenditures would reduce spending by approximately \$13 million.
22 However, that would not address the reliability problems that gave rise to the planned
23 projects in the first place.

24 PSE could also defer work associated with preventative substation
25 maintenance, thereby deferring approximately \$2.5 million in costs over the next year.
26 However, this deferral would be expected to result in 26 additional substation outages

1 in 2002. Substation outages tend to have significantly greater impact with respect to the
2 number of customers affected and the duration of outages that customers experience.
3 Thus, the outages would be expected to result in an increase of approximately 13.7
4 million customer outage minutes.

5 Finally, we could implement cuts in customer service areas. For example, we
6 could reduce hours of our Customer Access Center from 24/7 to Monday through
7 Friday, 7 a.m. to 10 p.m. and Saturday 9 a.m. to 5 p.m. That would reduce O&M
8 costs by approximately \$600,000. However, it would degrade service to our
9 customers and it would reduce our ability to handle calls during the initial hours of
10 storms or other emergencies.

11 **Q: Does this conclude your testimony?**

12 **A:** Yes.

13
14 [BA013340092]

EXHIBIT NO. _____ (GBS-2)
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PROFESSIONAL QUALIFICATIONS OF GARY B. SWOFFORD
ON BEHALF OF PUGET SOUND ENERGY, INC.

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2 **PUGET SOUND ENERGY, INC.**

3 **PROFESSIONAL QUALIFICATIONS OF**
4 **GARY B. SWOFFORD**

5 I became the Vice President and Chief Operating Officer – Delivery for PSE in 1999.
6 Prior to that, from 1994 to 1999, I was Vice President, Customer Operations for Puget Sound
7 Power & Light Company ("PSPL"), and then for PSE. From 1991 to 1994, I was Vice
8 President, Divisions & Customer Service for PSPL. From 1986 to 1991, I was Vice
9 President, Rates and Customer Programs for PSPL. From 1980 to 1986, I served as
10 President of Puget Energy Services Inc., a wholly owned subsidiary of PSPL. Prior to that, I
11 held a number of positions with PSPL going back to 1968.

12 I am also on the Executive Advisory Committee of Edison Electric Institute, and I serve
13 as Board member for the Western Energy Institute and the Hydro Energy Development Corp.

14 I obtained an Electrical Engineering degree from the University of Washington in 1968.
15 I completed an Engineering Economy for Public Utilities Extension Course at Stanford
16 University in 1979, a Public Utilities Executives Extension Course at the University of Idaho in
17 1980, and the Executive Management Program at the Edison Electrical Institute in 1988.

EXHIBIT NO. _____ (GBS-3)
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