May 5, 1999

Ms. Carole J. Washburn, Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Re: Docket No. UE-990473 (Review of Chapter 480-100 WAC)

Dear Ms. Washburn:

Thank you for the opportunity to participate in this process to review the gas and electric operational WAC rules. Puget Sound Energy (PSE or the Company) looks forward to working with various interested parties in this process to try and ensure the rules are efficient and meet the needs of both consumers and utilities.

This letter includes PSE's initial comments for both the gas and electric rules noted above. Please note these comments do not include recommendations for Least Cost Planning rules, as those will be addressed by the Company separately. Additionally, please note these are only initial comments—supplemental comments may follow in the next few weeks. PSE presumes there will be opportunities for all parties to revise, expand, or eliminate specific recommendations as the Commission's review process fosters open communication between all interested parties.

Discussion

All of the Company's comments are provided within the context of review criteria ordered by the Governor in Executive Order 97-02. Briefly, those criteria are stated as:

1. Need
2. Effectiveness and Efficiency
3. Clarity
4. Intent and Statutory Authority
5. Coordination
6. Cost
7. Fairness

A review of WAC 480-90 and 480-100 in light of these criteria reveals several revisions are needed, as discussed more fully below.

Specific Comments

Accounting Related

1. WAC 480-90 and 100-031 Section (4)—Variance From FERC Accounts.

Situation: There are realistically no situations where accounting information cannot efficiently be assigned to FERC accounts on the gas side and compliance with FERC accounting is required by FERC on the electric side.

Concerns:
- Under Executive Order criterion 5, coordination, this provisions can be dropped as it is not necessary.

Proposed Remedy: Delete 480-90 and 100 -031 (4).

Justification: The provision is not needed.

2. WAC 480-90 and 100-031 Section (5) (f)—Semi-Annual Reports

Situation: The rules require each gas and electric utility to file a semi-annual Commission basis reports. These reports must be provided in addition to annual reports and monthly reports.

Concerns:
- This rule should be considered in light of Executive Order criterion 6 (Cost). Preparing the semi-annual Commission basis report is costly in terms of resources and time. Additionally, detailed review of each energy utility's semi-annual report may be costly for WUTC Staff. Given that annual and monthly reports (which are suggested to be quarterly in the next section) provide copious amounts of information, it is not clear that benefits of this requirement are greater than its costs.
- Coordination with other government jurisdictions may also be a concern under Executive Order criterion 5. The WUTC is the only regulatory body that requires the semi-annual commission basis report, which may be of questionable value. The Company must file an annual commission basis report that corresponds to requirements from FERC and the SEC along with quarterly SEC filings. This is an opportunity to streamline the regulatory process by coordinating with those agencies' filing requirements while still providing efficient regulatory services to consumers.

Proposed Remedy: Eliminate the requirement for filing semi-annual reports, and retain an annual report consistent with each utility's fiscal year for which audited financial statements are prepared.

Justification: Annual commission basis reports together with quarterly (as opposed to monthly) reports will provide consumers with proper regulatory protection while saving expenses for the WUTC and utilities.

3. WAC 480-90 and 100-031 Section (7)—Monthly Reports

Situation: The rule requires monthly reporting of actual Washington results of operations. Utilities routinely file quarterly reports with similar information with the SEC.

Concerns:

- Executive Order criterion 6 may be an issue for this rule. Utilities preparing and filing monthly results of operations and WUTC staff review of those filings consumes resources and time from both parties. Relying on quarterly results of operations may provide the same level of regulatory oversight while reducing expenses for both the WUTC and utilities. Thus, the benefit-cost comparison of quarterly comparisons may show this is a more efficient regulatory process.
- Coordination with other government jurisdictions may also be possible, according to Executive Order criterion 5. First, utilities are required to submit quarterly results of operations to the SEC. This could easily be reported to the WUTC on a Washington only results of operations basis. Second, especially in the electric industry, as wholesale markets become less regulated, there may be competitive concerns with reporting monthly results. SEC disclosure issues may also become a concern.

Proposed Remedy: Modify the requirement for monthly results of operations filings to quarterly results of operations filings consistent with SEC filing timelines.

Justification: Quarterly results of operations, in conjunction with annual commission basis reports, will most likely provide the same degree of regulatory oversight while saving expenses for the WUTC and utilities.

Customer Service Related

1. WAC 480-90 and 100-051 Section (1) (c)—Establishment of Credit

Situation: This section states the following is a demonstration of credit worthiness: Consecutive employment during the entire 12 months next previous to the application for service, with no more than two employers, and the applicant is currently employed or has a stable source of income.

Concerns:

- This rule fails to meet Executive Order criterion 2 (Effectiveness and Efficiency) as the conditions described fall far short of demonstrating credit worthiness.
- Executive Order criterion rule 6 (Cost) is also a concern. Accurately verifying employment can be time consuming, whereas the value it provides in demonstrating credit worthiness is minimal.
- Executive Order criterion 7 (Fairness) is also a consideration. It is not reasonable to require utilities to utilize an inadequate means of demonstrating credit worthiness. Inappropriately extending credit increases the cost of doing business and results in upward pressure on rates, which is not fair to other consumers.

Proposed Remedy: Delete 480-90 and 100 -051 (1) (c).

Justification: The remaining sections of this rule, as further revised below, provide several regulatory alternatives for establishing credit that are effective, fair to utilities and all customers, and efficient.

2. WAC 480-90 and 100-051 Section (1) (f)—Establishment of Credit

Situation: The rule states: "Demonstration that applicant is a satisfactory risk by appropriate means including, but not limited to, the production in person at a listed business office of two major credit cards, or other credit references, which may be quickly and easily checked by the utility."

Concerns:

- A portion of Executive Order criterion 1 (Need) is relevant. Circumstances have changed that necessitate revision to the rule. Major credit cards no longer have the same value in demonstrating credit worthiness as in the past. Many financial institutions offer major credit cards to high-risk consumers at maximum allowable interest rates and/or require security deposits to cover the higher risk. Thus, the risk profile of some financial institutions that provide major credit cards may have changed to accept higher risk than in the past, and higher risk than a utility should bear.
- Following from the discussion above, Executive Order criterion 2 (Effectiveness and Efficiency) is an issue, since major credit cards do not necessarily provide an effective means of establishing credit worthiness with risk levels commensurate with utility services.
- Executive Order criterion 7 (Fairness) is also a consideration. It is not reasonable to tie the financial credit risk of a utility with that of a financial institution that is being compensated for that risk through higher fees. Using an inadequate method of establishing credit increases the cost of doing business and results in upward pressure on rates, which is not fair to other consumers.

Proposed Remedy: Revise this section to omit references to major credit cards and replace it with a satisfactory credit history from a credit reporting agency, the fees for which will be paid by the customer applying for service.

Justification: These revisions will be more effective and efficient because they specifically address the issue: credit. Using credit card possession as a proxy for a credit report is inferior protection for utilities and credit worthy customers that share in the risk burden, relative to targeting the question of credit worthiness directly.

3. WAC 480-90 and 100-051 Section (4)—Amount of Deposit

Situation: PSE experiences uncollectable amounts even after applying deposits to final bills. This indicates that in some situations where deposits are required, the deposit is insufficient.

Concerns:

- This rule fails to meet Executive Order criterion 2 (Effectiveness and Efficiency) as the purpose for collecting a deposit is to avoid uncollectables.
- Executive Order criterion 7 (Fairness) is also an issue. It may not be fair to require utilities to charge insufficient deposits. This practice increases the cost of doing business and results in upward pressure on rates, which is not fair to other consumers.

Proposed Remedy: Increase the amount of deposit required by one twelfth of estimated annual billing. For monthly billing, the deposit would be three twelfths of the annual bill and for bi-monthly billing the deposit would be four twelfths.

Justification: These revisions will be more effective in avoiding uncollectables after applying deposits to final bills. This would be more fair to utilities and those customers who do not create uncollectable expenses.

4. Form of Bills—WAC 480-90-106 and 480-100-101

Situation: The current rule states "bills for utility service shall be issued at intervals not to exceed 2 months...." This can create quality control concerns for billing systems, especially with regard to bimonthly bills. PSE's billing system is designed to automatically divert bills that fall outside various parameters for manual review, to ensure a quality billing process. On those occasions when investigation is warranted, it is not possible to investigate a bimonthly bill and still issue it within the two months required.

Concerns:

- Clarity (Executive Order criterion 3) may be a problem in this rule. The word "issue" is not clear. We strive for high quality in our billing service function, which requires manual review of bills in some situations. Certainly, the intent of this rule is not to require low quality billing services for customers.
- If one believed the utility should be required to have a perfect meter reading and billing processes without needing to manually review any bills, Executive Order criterion 6—Cost—would be an issue. Perfection in an automated process of this magnitude is not technically feasible. Even if it were technically feasible, the cost of such a system would far exceed the cost of occasionally researching customer bills.
- Fairness under Executive Order criterion 7 would also be a concern. Encouraging the use of bimonthly billing while not permitting utilities any margin for quality control does not seem fair or reasonable. It must be noted that utilities have no economic incentive to avoid issuing bills—the time value of money is lost. Additionally, if such standards were imposed on utilities, it would not be fair to customers as the inefficiently high billing costs would be reflected in rates.

Proposed Remedy: The rule should be revised to state the normal billing process will result in billing periods that are no longer than 2 months.

Justification: This revision would ensure customers' bills do not exceed bimonthly billing but allow a margin for quality control in the billing process.

5. WAC 480-90-106 and 480-100-101 Form Of Bills - Content

Situation: This section seems to state that bills must include factors related to the bill except for the tariff itself. Recent interpretations, however, indicate that all factors contained in the tariff, or in the case of a rate change, both tariffs must be included on the bill.

Concerns:

- This rule fails to meet Executive Order criterion 1 (Need) as the requirement to include all factors contained in the tariff is duplicative of other rules requiring information to be provided to customers.
- Executive Order criterion 6 (Cost) is also a concern. Providing all tariff provisions on each bill, especially over a rate change period, will cause the customer to receive an additional page of billing information which will cause a cost that must be recovered in rates. In addition it could add to mailing costs.
- Executive Order criterion 7 (Fairness) is also an issue. It is not reasonable to require regulated utilities to provide additional duplicative information on their bills, as it may unnecessarily increase costs, which may not be fair to our customers.

Proposed Remedy: Revise WAC 480-90-106 and 480-100-101 to clearly eliminate any requirement to print the tariff on each bill.

Justification: WAC 480-90 and 100-041 along with WAC 480-80-080, 090,110 and 120 all require a company to provide or make available its tariff to customers. Printing it on each bill is needlessly duplicative and expensive.

6. WAC 480-100-076 Service Responsibilities - Interruptions of Service

Situation: This rule provides that each utility "...shall endeavor to avoid interruptions of service...". While we do not disagree with this requirement on its face, there are some situations where the cost of avoiding interruptions of service could be significantly greater than the benefits customers may derive.

Concerns:

- A portion of Executive Order criterion 2 (Effectiveness and Efficiency) is relevant. WAC 480-100-056, Refusal of Service, allows companies to refuse to provide electrical service if it is not economically feasible. It would seem to follow, therefore, that when the cost of providing a certain level of reliability is not economically feasible it also should be refused.
- Executive Order criterion 3 (Clarity) is an issue. The general objective of this rule seems laudable, but increases in reliability at any cost are surely not the intent of this rule.
- Executive Order criterion 6 [Cost] is the main focus of our comments on this rule. Reliability at any cost violates this principle.
- Executive Order criterion 7 (Fairness) is also an issue. It is not reasonable to force utilities to bear the cost of reliability improvements that are not cost effective, as it drives up costs and rates for our customers.

Proposed Remedy: Revise this section to incorporate provisions that require increases in reliability to be cost effective.

Justification: Making changes that are not economically feasible are not in the best interest of customers or the company.

7. Refusal of Service—WAC 480-90-056 and 480-100-056 Prior Obligation

Situation: Over-due or unpaid bills are justification to disconnect service, but not to refuse service. This means customers who move from one location in the utility's service area where they were disconnected for non-payment must be served even though they may owe substantial sums from several previous disconnects.

Concerns:

- Fairness under Executive Order criterion 7 is an issue. Extending service to customers with outstanding balances, especially when the customer has been disconnected for non-payment, is not fair to utilities to which the money is owed. Furthermore, under existing interpretations of the rules, customers can request a disconnection of service, refuse to pay the last bill, then request to have service re-established having only to pay an insufficient customer deposit. Such practices drive up costs for the utility and therefore drive up costs for those customers who pay their bills.
- Effectiveness and efficiency under Executive Order criterion 3, is also a concern in this situation. There are rules that address an extensive process for utilities to follow before service can be disconnected for non-payment under WAC 480-90-71 and 480-100-71. The purpose of the disconnect WACs are circumvented without some means of requiring customers to pay outstanding balances.

Remedy: Include prior obligation rules such as those in Oregon that hold customers accountable for unpaid balances before restoring service.

Conclusion

Once again, PSE would like to thank the Commission for the opportunity to file these initial comments. We look forward to working with all interested parties and are confident that this process of open discussion will provide ample opportunities to improve the operations rules under WAC 480-90 and 480-100. If we can be of any additional assistance, please contact Phillip Popoff at 462-3229.

Sincerely,

Christy A. Omohundro
Director, Rates and Regulatory Policy

May 5, 1999

Carole J. Washburn
Secretary
Washington Utilities and
Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Re: Docket No. UE-990473 (Review of Chapter 480-100 WAC)

Dear Ms. Washburn:

PSE appreciates this opportunity to provide initial comment in the Commission's review of WAC 480-100-251 (the electric least-cost planning rule) and WAC 480-90-191 (the gas least-cost planning rule).

Summary of Position

Because of the significant policy issues associated with the gas and electric least-cost planning rules, these particular rules should be examined in a proceeding separate from the remaining portions of Chapters 480-90 and 480-100.

Puget Sound Energy looks forward to working with the Commission and interested parties through this process to develop rules that are clearly relevant and useful in today's changing industry. Such requirements should be reflective of the current industry transition. Plans developed should be useful to companies, regulators, customers and the public. If not, the costs of such a process outweigh its benefits. Regulation associated with least-cost planning should address ramifications to utilities and their customers of continuing industry developments, including the transformation of wholesale energy supply markets, particularly as current regulatory frameworks based on traditional use of cost of service regulation may not be effective going forward.

The gas and electric least-cost planning rules were both instituted in 1987. Many fundamental and dramatic changes have occurred in both the gas and electric industries since that time and strong forces driving further changes continue. For example, in clear contrast to the energy industry of 1987, wholesale gas and electric energy markets are now open to robust, direct competition. This change alone has many broad ramifications regarding least-cost planning and associated issues of regulatory policy. While energy

supply markets have changed significantly, electric utility regulation has not. As a consequence, utilities face new business risks associated with market price variability, effectively serving as a buffer between variable markets and customers under current cost of service regulation. This business risk, if it persists, will increase an electric utility's cost of capital, a significant cost that will eventually be borne by customers if this risk is not addressed through new or revised regulatory mechanisms.

In this way, consideration of least-cost planning rules raises many key policy issues associated with this industry transition and necessary regulatory developments to address this transition. PSE looks forward to the Commission's direction regarding these important issues.

Discussion

This review is timely as many developments have occurred in the gas and electric industries since these rules were originally developed. As ordered by the Governor in Executive Order 97-02, review of these rules should be guided by the following standards:

- Need
- Effectiveness and Efficiency
- Clarity
- Intent and Statutory Authority
- Coordination
- Cost
- Fairness

Review of the least-cost planning rules according to these standards, in particular, raises a number of issues that the Commission should address. Many of these issues are discussed below. Further, a number of interests and considerations surrounding least-cost planning were recognized by interested parties through the course of the WUTC's Notice of Inquiry (UE-940932- electric and UG-940778 - gas) regarding least-cost planning. As discussed in those proceeding that extended over many months, the gas and electric least-cost planning rules require careful consideration and involve a number of matters of energy policy. Given the importance and magnitude of these policy considerations, review of these rules should be broken out from the review of the remainder of Chapter 480-100 WAC and Chapter 480-90 WAC. The remaining portions of the rules primarily address operational issues, and do not present the same sort of policy issues.

Background

A utility's obligation to serve its customers has been the fundamental basis of electric utility planning. This obligation requires utilities to make long-term investments in energy supply resources as well as in transmission and distribution facilities with an understanding that the utilities' costs would be recovered over the lives of those assets and the duration of the attendant commitments. Under traditional cost of service regulation, utilities were willing to make long-term resource commitments as this regulatory scheme provided for necessary recovery of those investments and expenditures. In a form of what might be called public policy piggy-backing, the obligation to serve has also come to serve as a conduit to advance federal and state public policy objectives, such as utility conservation programs, services directed toward low-income customers, and mandated acquisition of Qualifying Facilities under the Public Utility Regulatory Policies Act (PURPA), among others. As elsewhere, the electric least-cost planning rule was developed within this context in the State of Washington. Plans have been prepared and filed with the Commission by a regulated utilities, including PSE, and these plans, in turn, have guided the associated resource acquisition decisions.

Utility least-cost planning processes were developed in this state, as in others, in what could be described as a form of centralized planning. At the time the gas and electric least-cost planning processes were introduced in 1987, there were no competitive wholesale electricity markets and wholesale gas markets were just beginning to develop under FERC Order 436. Utility least-cost planning processes, conducted through "collaborative" efforts, served as the primary mechanism by which resource development decisions were considered and analyzed. An important piece of this process was development of the electric utility's long term Avoided Cost in compliance with PURPA. The costs of various resource alternatives were based upon estimation procedures, subject to inaccuracies inherent in such a process. No open, competitive market existed to supply critical information regarding resource alternatives. Rather than basing a utility's marginal resource cost on the accurate price information provided by a competitive wholesale generation market -- such as available now -- Avoided Costs were estimated through administrative processes. The least-cost planning process, focusing on a utility's resource acquisition strategy, was an integral part of the regime to determine Avoided Costs administratively and to compare potential or hypothetical resource alternatives.

In addition, broader social objectives such as utility conservation programs investment and renewable resource development were pursued through this process. For instance, rules and procedures were established that required consideration of conservation as the equivalent of an energy supply resource and consideration of total societal costs (rather than direct costs) by the utility in a centralized, public planning process focused on a long-term planning horizon.

Since that time, the gas and electric utility industries have undergone fundamental changes nationwide. A number of FERC actions, including Orders 436, 500 and 636, have opened natural gas wholesale markets to competition. Through the 1992 Energy Policy Act and FERC Orders 888 and 889, the federal government has restructured the framework within which the wholesale electric supply markets now operate. This restructuring, in combination with technological advancements and abundant supplies of low cost natural gas, among other factors and circumstances, have all contributed to the establishment of robust, competitive wholesale electricity markets. Resource planning is now conducted as an economically efficient, decentralized, market-driven, unregulated activity at the wholesale level. As a result, the centralized least-cost planning processes formerly conducted by utilities have become outdated. Now a wealth of information on market-based resource alternatives has become available, and, consequently, former centrally estimated and projected data regarding potential costs, availability and operational characteristics of potential resource alternatives are of little value now. The need for extensive analysis centered around the estimation of administratively determined Avoided Cost no longer exists. The resource supply market is sufficiently developed and robust that it provides the necessary cost information about potential resource acquisition options.

Beyond this, many states are providing direct retail access to these competitive wholesale markets. While the State of Washington has not instituted statutory changes to mandate open access, the ramifications of these industry developments that have already occurred must be taken into account. It is important to note that this state may not be able to insulate against the major forces of change in the industry, particularly those driving the continued movement to competition and pressure on price and cost subsidies. The Commission should consider the gas and electric least-cost planning rules in this context.

Regulatory Policy Implications

The fact that wholesale energy markets have changed dramatically while regulation has not raises a critical issue of regulatory policy. Under the current situation, regulated electric utilities continue to operate under cost of service regulation and a duty to serve. In doing so, electric utilities are now effectively serving as buffer between volatile market forces and customers. Serving as this buffer is costly. This situation is a sharp contrast to that of 1987 when utilities could make long-term resource commitments under a least-cost planning framework with the assurance that those known investments and expenditures would be recovered under a well-understood cost of service regulatory framework. Utilities are now appropriately relying on market-based purchases for resource acquisitions, however, those market costs are quite variable. In this state, as opposed to others, there has been no corresponding change in regulation to address this change in market structure. What has effectively emerged is that electric utilities are now in the position of absorbing market price risk. This risk was largely nonexistent for utilities in the past. Should this situation continue over time, a utility's cost of capital

will rise to reflect this new risk to the utility business and this significant cost will eventually be borne by customers. For that reason, Puget Sound Energy believes that electric utilities should not continue to be in this position and looks forward to the Commission's policy guidance on this important matter.

Over-reliance on a centralized planning processes in an environment where competitive wholesale markets exists for effective resource planning can be ineffective and lead to poor resource decisions. It can also inappropriately weaken the ability of the affected utility to access energy supply markets competitively. Further, in conducting such public processes open to all interested parties, including current or potential competitors, incumbent utilities must attempt to protect competitively sensitive information regarding resource costs and corporate strategies, among other material, further weakening the process. Should the Commission decide to continue a mandated least-cost planning process, at a minimum it should be significantly streamlined and refined to reflect the circumstances of today's energy markets and the participants in those markets that have changed so dramatically since the gas and electric least-cost planning rules were first developed over a decade ago.

Given the current and developing competitive energy markets, the presumption that pursuit and funding of the public policy objectives associated with least-cost planning can continue in an effective manner through that process should be re-examined. For instance, should policy makers seek pursuit of social objectives such as conservation, emissions reductions, efficiency, and renewable resource development, those objectives should be directly and separately funded, as explicit, identifiable charges or taxes at the end-user level. Pursuit of such public policy objectives through mandated centralized utility resource planning process has become an ineffective and outdated means to these ends.

PSE, for its part, is focused on flexibility in accessing competitive wholesale electricity markets in acquiring resources to serve its loads. This flexibility is especially important because a utility's obligation to serve may change dramatically as a natural result of industry evolution and policy developments. PSE acknowledges that its obligation to serve continues unchanged until the Congress or the Washington State Legislature indicate otherwise.

Nonetheless, because the industry continues its rapid transformation toward competition, PSE must rely on the alternatives presented by competitive wholesale generation markets, rather than centralized planning, for resource acquisition. In doing so, Puget Sound Energy sees its regulated electric business evolving to a structure analogous to its gas business structure, as an LDC with a mechanism like the current purchased gas adjustment (PGA) mechanism to pass through market-based energy costs. PSE looks forward to the Commission's direction regarding these important matters.

In conclusion, given the significant policy issues surrounding the consideration of the least-cost planning rules, a separate proceeding devoted to these issues is warranted rather than considering them alongside the far less controversial operational rules being examined in this proceeding. We appreciate the opportunity to submit these comments. We look forward to participating in the future Commission workshops and related forums where these issues will be examined and to the Commission's policy direction.

Sincerely,

George Pohndorf, Jr.
Director
Regulatory Planning

PUGET SOUND ENERGY

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Beyond this, many states are providing direct retail access to these competitive wholesale markets. While the State of Washington has not instituted statutory changes to mandate open access, the ramifications of these industry developments that have already occurred must be taken into account. It is important to note that this state may not be able to insulate against the major forces of change in the industry, particularly those driving the continued movement to competition and pressure on price and cost subsidies. The Commission should consider the gas and electric least-cost planning rules in this context.

Regulatory Policy Implications

The fact that wholesale energy markets have changed dramatically while regulation has not raises a critical issue of regulatory policy. Under the current situation, regulated electric utilities continue to operate under cost of service regulation and a duty to serve. In doing so, electric utilities are now effectively serving as buffer between volatile market forces and customers. Serving as this buffer is costly. This situation is a sharp contrast to that of 1987 when utilities could make long-term resource commitments under a least-cost planning framework with the assurance that those known investments and expenditures would be recovered under a well-understood cost of service regulatory framework. Utilities are now appropriately relying on market-based purchases for resource acquisitions, however, those market costs are quite variable. In this state, as opposed to others, there has been no corresponding change in regulation to address this change in market structure. What has effectively emerged is that electric utilities are now in the position of absorbing market price risk. This risk was largely nonexistent for utilities in the past. Should this situation continue over time, a utility's cost of capital

will rise to reflect this new risk to the utility business and this significant cost will eventually be borne by customers. For that reason, Puget Sound Energy believes that electric utilities should not continue to be in this position and looks forward to the Commission's policy guidance on this important matter.

Over-reliance on a centralized planning processes in an environment where competitive wholesale markets exists for effective resource planning can be ineffective and lead to poor resource decisions. It can also inappropriately weaken the ability of the affected utility to access energy supply markets competitively. Further, in conducting such public processes open to all interested parties, including current or potential competitors, incumbent utilities must attempt to protect competitively sensitive information regarding resource costs and corporate strategies, among other material, further weakening the process. Should the Commission decide to continue a mandated least-cost planning process, at a minimum it should be significantly streamlined and refined to reflect the circumstances of today's energy markets and the participants in those markets that have changed so dramatically since the gas and electric least-cost planning rules were first developed over a decade ago.

Given the current and developing competitive energy markets, the presumption that pursuit and funding of the public policy objectives associated with least-cost planning can continue in an effective manner through that process should be re-examined. For instance, should policy makers seek pursuit of social objectives such as conservation, emissions reductions, efficiency, and renewable resource development, those objectives should be directly and separately funded, as explicit, identifiable charges or taxes at the end-user level. Pursuit of such public policy objectives through mandated centralized utility resource planning process has become an ineffective and outdated means to these ends.

PSE, for its part, is focused on flexibility in accessing competitive wholesale electricity markets in acquiring resources to serve its loads. This flexibility is especially important because a utility's obligation to serve may change dramatically as a natural result of industry evolution and policy developments. PSE acknowledges that its obligation to serve continues unchanged until the Congress or the Washington State Legislature indicate otherwise.

Nonetheless, because the industry continues its rapid transformation toward competition, PSE must rely on the alternatives presented by competitive wholesale generation markets, rather than centralized planning, for resource acquisition. In doing so, Puget Sound Energy sees its regulated electric business evolving to a structure analogous to its gas business structure, as an LDC with a mechanism like the current purchased gas adjustment (PGA) mechanism to pass through market-based energy costs. PSE looks forward to the Commission's direction regarding these important matters.

In conclusion, given the significant policy issues surrounding the consideration of the least-cost planning rules, a separate proceeding devoted to these issues is warranted rather than considering them alongside the far less controversial operational rules being examined in this proceeding. We appreciate the opportunity to submit these comments. We look forward to participating in the future Commission workshops and related forums where these issues will be examined and to the Commission's policy direction.

Sincerely,

George Pohndorf, Jr.
Director
Regulatory Planning