EXHIBIT NO. _____ (NLG-1T)
DOCKET NO. UG-060267 & UE-060266
2006 PSE GENERAL RATE CASE
WITNESS: NANCY L. GLASER

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UG-060267** **Docket No. UE-060266**

PREFILED DIRECT TESTIMONY OF NANCY L. GLASER ON BEHALF OF NW ENERGY COALITION

July 19, 2006

NW ENERGY COALITION

PREFILED DIRECT TESTIMONY OF NANCY L. GLASER

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Nancy Glaser. I am employed by the NW Energy Coalition, 219 First Ave. South, Suite 100, Seattle, WA 98104.

Q. What are your position and responsibilities?

A. I was hired by the NW Energy Coalition in April of this year. As a Senior Policy Associate I represent the Coalition in regulatory proceedings before the Washington Utilities and Transportation Commission.

Q. Please summarize your educational background and professional experience.

A. I received a Master of Arts in Economics from Harvard University in 1974 and a Bachelor of Arts in Economics from Michigan State University in 1971. I have extensive Executive level experience with both public electric and solid waste utilities. From January 1998 through the beginning of 2005, I directed several divisions (Finance, Environmental Affairs and Strategic Planning) at Seattle City Light, the 7th largest public electric utility in the nation. Priority responsibilities included: assuring adequate financial resources were available for the utility's annual capital and operating programs ($80 and $400 million respectively); developing comprehensive business, marketing and resource/conservation plans to stay competitive in a rapidly changing industry; and implementing a multi-faceted, nationally recognized environmental stewardship program. From 1992 to 1996, I

directed the City of Seattle's Solid Waste Utility. I have also worked as a professional economist and have taught economics courses at Harvard University, the University of Utah and Westminster College. Additional experience and accomplishments are summarized in Exhibit____ (NLG-2).

Q. Have you appeared before utility regulatory Commissions in other proceedings?

A. I have not appeared before this Commission as my utility experience has been in the public sector with the City of Seattle. I have presented testimony on a range of energy and environmental issues to the Bonneville Power Administration, the NW Power and Conservation Council and the Federal Energy Regulatory Commission

Q. How was your work before the Seattle City Council similar to work with a Commission?

A, Nine elected Seattle City Council members oversee the City's budget, set utility rates, and define policy to guide all City operations. As a senior member of a number of City Department's leadership teams, I regularly presented findings and recommendations to the City Council. I also served as the Executive Director to the Council's central staff that provides analytical, policy development, administrative and technical support to all Council members. I supervised for several years the Council's "utility team" - - recommending significant rate, financial and policy changes for the City's electric, solid waste, water and drainage/wastewater utilities. Thus I have extensive experience, from both the Executive and Legislative sides, presenting testimony and recommendations to the Seattle City Council, the Board governing the City's public utilities.

Q. Please summarize the contents of your testimony.

A. My testimony focuses on three topics referenced in the Prefiled Direct Testimony of Calvin E. Shirley (Exhibit ___(CES-1T)): a new electric conservation incentive mechanism, several demand-side management pilot programs, and the budget for low income weatherization programs for residential natural gas and electric customers.

In the first section of this testimony I propose an alternative to the electric efficiency incentive mechanism proposed by Puget Sound Energy (PSE). An incentive mechanism must be carefully structured if it is to provide benefits to both consumers and the Company. The Coalition has worked with and concurs with Public Counsel and Commission staff on the design criteria for the pilot program. I have included in Exhibit ____(NLG-3) the twelve criteria presented by both Public Counsel and Commission staff in their respective testimonies. While the Coalition agrees on the design criteria, we recommend incentive/penalty levels different than those proposed by Public Counsel and Commission staff.

Our proposed incentive payment is paid only for ambitious conservation achievement. It has two components: a fixed dollar amount for each MWH saved plus a payment that reflects a portion of the economic value of conservation investments. We reject PSE's proposal to pay incentives as a percentage of conservation dollars expended.

Although we support PSE's investment in demand response pilots, we recommend that these be removed from the revenue requirement in this rate case. Objectives, descriptions, budgets and evaluation plans for each pilot should be reviewed with PSE's Conservation Resource Advisory Group (CRAG) later this year.

We recommend that PSE file its pilots with the Commission by year-end. The Commission should allow PSE to recover costs for approved pilots through the existing Electric Conservation Tariff Rider, Schedule 120, if the CRAG recommends that the pilots have merit. Should the pilots result in full programs, I recommend that the Commission revisit the funding source.

Finally, I recommend that PSE direct an additional $1,000,000 to low-income weatherization programs. Seventy percent of these funds should be directed to electric conservation; thirty percent to gas conservation.

II. ELECTRIC ENERGY EFFICIENCY INCENTIVE MECHANISM

Q. Why do you recommend the Commission consider incentive payments for electric energy efficiency achievements?

A. All ratemaking regulation provides utilities with incentives or disincentives to behave in a certain manner. Ideally utilities should be rewarded based on how well they meet their customers' energy service needs. Traditional rate design in Washington ties recovery of fixed costs directly to commodity sales. This encourages increased use and discourages even the most economical investments if they are likely to reduce energy sales. With every unsold kilowatt-hour of energy, PSE shareholders forego cost recovery of recognized and prudent margin costs.

This regulatory paradigm places the utility's interests (to increase sales) in conflict with the customers' interests (to reduce their total energy costs) and fosters a corporate culture that opposes direct utility investments in programs that reduce energy use. Although the Coalition proposes a pilot of a more comprehensive

"decoupling" mechanism for PSE's gas utility[1], we suggest a more limited pilot on the electric side of the business. To overcome the disincentive for conservation investments, incentive payments are offered to the company to encourage aggressive pursuit of all cost-effective conservation achievable. We recommend incentives structured to stimulate strong performance. The recommended incentives provide for a fixed payment for each MWH saved as well as a share of the economic value of efficiency investments.

Q. Why do you recommend changes to PSE's proposal?

A. The Company's proposed Electric Energy Efficiency Mechanism, as outlined in Exhibit ____(CES-4), is inadequate for 3 key reasons: 1.) Incentive payments should be paid for outstanding achievements, not base line activities; 2) Incentive payments that are paid as a percentage of Company expenditures do not encourage cost containment; and 3) Clear design criteria must be established such that customers can be sure they receive value for their incentive payments. (See Exhibit ____(NLG-3))

Q. At what level of conservation achievement did PSE propose it earn an incentive?

A. PSE proposed it receive an incentive payment if it met its "base line" target (16.5 aMW in 2007). It's incentive payment would discretely increase if its performance exceeded thresholds of first, 19 aMW, and then 21.5 aMW

Q. Why don't you believe this is appropriate?

A. Incentives should only be paid for ambitious accomplishments. The 16.5 aMW target falls far short of a wide range of the Company's defined targets and its recent and notable accomplishments.

[1] Direct testimony of Coalition witness Steven D. Weiss (Exhibit ____SDW-1T).

- PSE defined an "accelerated energy efficiency level" of 18.6 aMW per year in its 2005 Least Cost Plan.
- PSE achieved 19.7 aMW of cost-effective conservation in 2004 and 19.6 aMW in 2005.
- PSE has a 40 aMW stretch target for the 2006/2007 biennium. (38.7 aMW of that is funded with conservation rider funds and an additional 1.3 aMW with Bonneville Power Administration monies).

Q. What level of achievement merits an incentive payment? Why?

A. A pay for performance system should encourage ambitious performance each and every year. We commend PSE for its recent accomplishments and want to structure an incentive mechanism that provides increased incentives for increased accomplishment. The Coalition's proposed structure is outlined in the following table. The percentage accomplishment figures in this table are calculated relative to PSE's 16.5 aMW base line target.

Incentive Range	aMW Saved	% of base target	$/MWH Incentive	shared Net TRC incentive	Per MWH Incentive	Shared Net TRC Incentive	**Total Incentive**
>150.0%	24.75	150%	$ 20	40%	$ 4,336,200	$ 1,561,032	$ 5,897,232
140.0 - <150.0%	23.10	140%	$ 20	33%	$ 4,047,120	$ 1,201,995	$ 5,249,115
130.0 - <140.0%	21.45	130%	$ 20	25%	$ 3,758,040	$ 845,559	$ 4,603,599
120.0 - <130.0%	19.80	120%	$ 20	15%	$ 3,468,960	$ 468,310	$ 3,937,270
115.0 - <120.0%	18.98	115%	$ 15	5%	$ 2,493,315	$ 149,599	$ 2,642,914
110.0 - <115.0%	18.15	110%	$ 10	0%	$ 1,589,940	$ -	$ 1,589,940
105.0 - <110.0%	17.33	105%	$ 5	0%	$ 758,835	$ -	$ 758,835
95.0 - <105.0%	**16.5**	100%	0%	0%	$0	$0	$0

Our proposal provides for a payment of $5/MWH if the Company meets 105% of its base target (roughly 17.33 aMW). This flat per MWH payment increases to a maximum of $20/MWH if PSE exceeds its base target by at least 20%. At that performance level, we also recommend paying a "shared incentive" that is 15% of the

difference between the Company's avoided cost and the levelized total resource cost.[2] If PSE exceeds its baseline target by more than 50% we recommend that this "shared incentive" increase to 40% of the difference between the Company's avoided cost and the levelized total resource cost. I note that this is 40% of the first year economic benefit of conservation only; not 40% of the economic benefit over the 9+ year average life of conservation investments undertaken to be eligible for this incentive payment.

Q. Should there continue to be a penalty requirement if PSE under performs in its conservation achievement?

A. Yes. At present, pursuant to the 2002 Conservation Settlement,[3] the Company faces the following financial penalties for failure to achieve annual conservation targets. The conservation target referenced in the 2002 Settlement Stipulation is the approved base target, i.e. the 16.5 aMW target for 2006 and 2007 referenced above.

90-99% of base target	$200,000
75-89% of base target	$500,000
Less than 75% of base target	$750,000

If customers are to provide an incentive for outstanding conservation achievement, it is appropriate that the Company continue to be required to pay a penalty if cost-effective conservation targets are not met. Customers will pay higher energy bills to the extent cost-effective conservation programs are not undertaken in a timely manner. A significant amount of cost effective conservation is "timing dependent,"

[2] PSE Exhibit ___(CES-5) defines PSE's avoided costs as $0.059 and the levelized Total Resource Cost of Conservation (TRC) as $0.041. The difference at this time is $0.018)

[3] Exhibit F of Settlement Stipulation for Electric and Common Issues and Applications for Commission Approval of Settlement on behalf of Parties, Dockets UE-011570 and UG-011571

i.e. it can be "lost" if not undertaken when new construction occurs or when upgrades to equipment are required. PSE estimates in Section VII of its 2005 Least Cost Plan that 32% of the efficiency potential in the residential sector and 57% in the commercial sector may be "lost" if not undertaken in a timely fashion.

Q. How should the level of the penalty payment be determined?

A. PSE proposes to spend roughly $1.5 million per aMW on its conservation programs over the 2006/2007 biennium. The level of the penalties in the current Settlement is insufficient to protect consumers should PSE not meet its conservation targets. The penalties should be equivalent to the amount that PSE would have spent to save each aMW. This would be the amount that any 3rd party would need to expend if it were to invest in cost-effective conservation on PSE's behalf. Therefore any penalty payment should be $1.5 million for each aMW of conservation achievement below a specified conservation target.

Q. At what level of under performance should a penalty be paid?

A. Since annual conservation can be influenced by a number of things (some beyond the Company's direct control), I recommend that no penalty be required unless PSE's conservation achievement is less than 95% of the 16.5 aMW base target. To the extent conservation achievement falls below that level, PSE would be required to pay $1.5 million for each aMW of energy conservation less than this 95% of base target figure. Such a penalty may appear large but payments of that magnitude would be necessary if a 3rd party were needed to deliver the energy savings the Company did not capture. Penalties established as part of the Electric Efficiency Incentive pilot

would replace those outlined in the earlier Settlement Agreement for the duration of the pilot.

Q. Do you recommend other design criteria for the pilot mechanism?

A. Yes, we concur with the twelve design criteria recommended by both Public Counsel and Commission staff in exhibits to their testimony on this topic. As they offer reasons for these design criteria in their testimonies, we reference only the twelve design criteria here as Exhibit ____(NLG-3).

III. PSE's Proposed Demand Response Pilots

Q. Do you support PSE's proposal to include several demand-side management pilot programs in its revenue requirement?

A. While we support exploring opportunities for demand response, we recommend that the proposed pilots be removed from the revenue requirement in this rate case and instead undergo review by the CRAG.

Q. Why is it better to review these proposed pilots with the Company's Conservation Resource Advisory Group?

A. The pilot programs proposed by the Company are thoughtful. However we do not see well-defined objectives, descriptions, budgets and evaluation plans for each pilot and these are critical if the pilots are to inform future programs. We believe these items should be developed more fully for review with PSE's Conservation Resource Advisory Group (CRAG) later this year. The expertise of that group, combined with its familiarity with existing conservation programs and demand side management challenges, is well positioned to focus on the remaining details for the proposed pilot programs. The CRAG meetings are a better forum to structure pilot programs than

this general rate proceeding. Following discussion and review with the CRAG, we recommend that PSE file its pilots with the Commission by year-end.

Q. How should approved pilots be funded?

A. The Commission should allow PSE to recover costs for approved pilots through the existing Electric Conservation Tariff Rider, Schedule 120. If those pilots become full blown programs, the source of funds should be revisited.

IV. Funds for Low-Income Weatherization Programs

Q. Why are low-income weatherization programs critical?

A. The Commission invited in-depth discussion of this issue at a workshop held on September 6, 2005. In brief summary, weatherization reduces overall demand for energy, which keeps rates low for everyone. And it's a means of making energy affordable for low-income families long-term while well-structured bill assistance programs can help address more immediate needs. Unfortunately, families can spend years on weatherization waiting lists, only to move before their number comes up.

Q. How are low-income weatherization programs financed?

A. Financing the weatherization of an individual dwelling is an art. Managers must cobble together resources from a variety of state, federal, local, utility and private sources, each of which may have its own eligibility requirements, cover different percentages of different things, or require a match or owner contribution. It's cheaper to visit a building just once, and it makes financial sense to coordinate weatherization programs with other existing low-income home repair and improvement programs.

Q. How do agencies learn about opportunities for weatherizing low-income homes?

A. Most of the referrals agencies receive for energy efficiency comes from the corresponding local energy assistance programs. Since PSE began funding energy assistance through the HELP program in 2002, the number of low-income households receiving assistance has increased considerably. For example, more than 17,000 households were served in 2005 – and 13,000 already have been served this year. This is a huge population of homes potentially eligible for energy efficiency.

Q. Is PSE's existing low-income weatherization funding level adequate?

A. No. PSE has budgeted $2.4 million for the 2006/2007 biennium for low-income weatherization programs (Exhibit ___ (CES-5)). The agencies providing low-income energy efficiency services with PSE funding have successfully operated the program for many years. However, agencies have experienced a significant increase in the cost of doing business over the last four years. The cost of gasoline has more than doubled since December 2003. According to Associated General Contractors, Construction Inflation Report, from 2001 through 2005 construction costs for multi-unit residential and single-unit residential dwellings rose 19.6% and 18%, respectively. Add to that the increased labor costs for electricians, carpenters, and insulators (6-10% increase in mean hourly wages for these trades in Washington between 2001 and 2005, according to the Bureau of Labor Statistics). This suggests the local agencies' estimates of 20-30% increase in their costs are not out of line. PSE ratepayers also have directly experienced rising electric and gas bills (e.g., as a result of the 2004 general rate case, power cost only rate cases, power cost adjustments, and purchase gas adjustments). Yet despite agency cost increases, increases in avoided

costs, and utility rate increases, the funding level for PSE's low-income weatherization program has not been increased since 2002.

Q. What funding level do you recommend?

A. A survey of the agencies indicates that an additional $1,000,000 a year across PSE's service territory is critical to reach more households in need of efficiency services and to address the increased installation cost of various energy efficiency measures. Roughly seventy percent of this funding would be used on electrically heated dwellings.

Q. Does this conclude your testimony?

A. Yes. Thank you for your consideration of our recommendations.