

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET NOs. UE-072300 and UG-072301

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

ON BEHALF OF

PUBLIC COUNSEL AND THE ENERGY PROJECT

May 30, 2008

NON-CONFIDENTIAL

DIRECT TESTIMONY OF BARBARA R. ALEXANDER (BRA-1T)
DOCKET NOs. UE-072300 AND UG-072301

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| I. INTRODUCTION / SUMMARY | 1 |
| II. PSE STORM RESPONSE PERFORMANCE AND RECOVERY OF STORM EXPENSES FOR THE HANUKKAH EVE STORM | 6 |
| III. PSE'S SERVICE QUALITY PERFORMANCE AND STRUCTURE OF THE SQI | 22 |
| IV. PSE'S INCENTIVE PAYMENT PROGRAM IS FLAWED BECAUSE OF THE MANNER IN WHICH SERVICE QUALITY PERFORMANCE IS REFLECTED IN THE PROGRAM | 37 |
| V. PSE'S PROPOSALS TO DRAMATICALLY INCREASE FIXED MONTHLY RESIDENTIAL CUSTOMER CHARGES | 38 |
| VI. PSE's LOW-INCOME PROGRAMS: DESIGN AND FUNDING | 48 |
| VII. PSE'S HANDLING OF "ZERO" METER READS AND BACK BILLING TO AFFECTED CUSTOMERS | 59 |

DIRECT TESTIMONY OF BARBARA R. ALEXANDER (BRA-1T)
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BARBARA R. ALEXANDER'S EXHIBIT LIST

- Exhibit No. ____ (BRA-2) Education and Employment History
- Exhibit No. ____ (BRA-3) PSE's Service Quality Index performance results for
1997 through 2007
- Exhibit No. ____ (BRA-4) PSE Response to Public Counsel Data Request No. 60
(Attachments A & B)
- Exhibit No. ____ (BRA-5) PSE Response to Public Counsel Data Request No. 483
(Attachments A & B)

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I. INTRODUCTION / SUMMARY

Q: Please state your name and business address.

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

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

A: I am a self-employed independent 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

1 prepared testimony on behalf of my clients before state utility regulatory commissions in
2 Pennsylvania, Maine, Vermont, California, New Jersey, Maryland, Illinois, Colorado,
3 West Virginia, Iowa, Kansas, Texas, Wisconsin, Montana, Washington, and the Canadian
4 Radio-Television and Telecommunications Commission.

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

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

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

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

18 A: I am sponsoring four exhibits: Exhibit No.____(BA-2) is my resume and list of
19 publications and testimony since 1996; Exhibit No.____(BA-3) is a compilation of PSE's
20 Service Quality Index performance results for 1997 through 2007; Exhibit No.____(BA-4)
21 is PSE's Response to Public Counsel Data Request No. 60; and Exhibit No.____(BA-5) is
22 PSE's Response to Public Counsel Data Request No. 483.

1 **Q: Please describe the issues you will address in your testimony.**

2 A: My testimony will address the following issues and respond to the testimony of the
3 following PSE witnesses:

- 4 • PSE's storm damage and reliability programs and expenses, particularly those
5 associated with the Hanukkah Eve Storm of December 2006, as reflected in the
6 testimony of Mr. Greg Zeller and the revenue requirement proposals of Mr. John
7 Story;
- 8 • PSE's compliance with the applicable Service Quality Index (SQI) and PSE's
9 reliability performance as addressed in testimony by Ms. Susan McLain and how
10 that performance should be reflected in the revenue determination in this
11 proceeding, as well as how, or whether, the structure of the current SQI should be
12 improved;
- 13 • PSE's inclusion of certain incentive pay costs in its revenue requirement, as
14 reflected in the testimony of Mr. Thomas Hunt;
- 15 • PSE's proposal to significantly increase the fixed monthly customer charge for
16 both gas and electric service, as reflected in the testimony of Ms. Janet Phelps
17 (gas) and Mr. David Hoff (electric);
- 18 • PSE's funding for low-income bill payment assistance and energy conservation
19 programs, as proposed by Mr. Eric Markell, Ms. Phelps, and Mr. Hoff; and
- 20 • PSE's policies in handling meter reading errors, the frequency of those errors, and
21 the Company's practices for issuing make-up bills.

1 My testimony should be considered as complementary to that of Glenn Watkins (rate
2 design and cost of service) and Michael Majoros (revenue requirement), who are also
3 submitting testimony on behalf of Public Counsel.

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

5 A: The following is a bullet point summary of my conclusions and recommendations for
6 each of the major topics I have addressed in my testimony:

- 7 • PSE’s Storm Response Performance and Recovery of Storm Expenses for the
8 Hanukkah Eve Storm—The report by KEMA on the Hanukkah Eve Storm and
9 PSE’s responses to the KEMA report recommendations, to date, suggest that PSE
10 did not prepare itself or its distribution and transmission system to respond as
11 effectively or as efficiently as it might otherwise have done. Furthermore, PSE’s
12 communications with customers, the media, and local officials was not adequate.
13 Due to the Company’s lack of preparedness on these basic measures and its
14 failure to adopt or implement “best practices,” I recommend that the Commission
15 disallow the recovery of 5 percent of the \$80 million costs associated with PSE’s
16 request for recovery of costs for the Hanukkah Eve Storm, equal to approximately
17 \$4 million.
- 18 • PSE’s Service Quality Performance and Structure of the SQI— PSE’s annual
19 service quality reports filed with the Commission indicate that several aspects of
20 the Company’s service are in need of improvement. Additionally, the manner in
21 which the SQI tracks customer call center performance fails to assure a reasonable
22 level of service throughout the calendar year. My recommendations seek to

1 increase penalties to reflect PSE's growing revenues, reform the call center
2 performance standard to reflect quarterly performance, respond to PSE's failure to
3 meet the SAIDI standard for two consecutive years, and include additional
4 reporting requirements that reflect emerging service quality performance results.

- 5 • PSE's Incentive Payment Program for Executives—PSE executives should not
6 earn any incentive payment if the utility fails to meet any of the SQI performance
7 requirements. I recommend that any rate recovery of salaries and incentive
8 payment reflect a removal of any costs associated with this incentive payment
9 program.

- 10 • PSE's Proposals to Dramatically Increase Fixed Monthly Residential Customer
11 Charges—It is not appropriate, fair, understandable, or necessary to increase fixed
12 customer monthly charges for residential customers in the amount or to the degree
13 proposed by PSE. My testimony identifies the impact PSE's proposed fixed
14 monthly charges would have on customers with low, medium, and high usage
15 levels, as well as the resulting shift of risk to ratepayers and the effect this change
16 could have on customers' conservation efforts.

- 17 • PSE's Low-Income Programs: Funding and Design—PSE's recommendation to
18 match increased HELP funding with the percentage rate increase and impacts of
19 its proposed rate design is insufficient. I recommend that PSE seek to increase
20 the enrollment of qualified HELP customers over a several year period, beginning
21 with an increase in the next program year of 5,000 additional customers over the
22 number served in 2007. In the course of that effort, PSE should continue to work

1 with the HELP advisory committee to investigate ways to improve program
2 delivery and effectiveness.

- 3 • PSE’s Low-Income Programs: Energy Efficiency—PSE should increase funding
4 for their low-income energy efficiency programs to compensate for the increased
5 costs and to serve more households. Beginning in 2009, I recommend an increase
6 of \$1,500,000 over the annual average budget from the 2008 – 2007 biennium.
- 7 • PSE’s Handling of “Zero” Meter Reads and Back-Billing Policies— I
8 recommend that the Commission require its Staff to conduct a docketed
9 investigation of the scope and policies associated with PSE’s meter reading
10 failures and back-billing policies. This investigation should be conducted in
11 cooperation with Public Counsel and any other interested parties and result in a
12 report to the Commission with findings and recommendations, with the possibility
13 of further Commission action based on the report findings.

14 **II. PSE STORM RESPONSE PERFORMANCE AND RECOVERY OF**
15 **STORM EXPENSES FOR THE HANUKKAH EVE STORM**
16

17 **Q: Please summarize PSE’s proposal with respect to recovery of Catastrophic Storm**
18 **expenses, particularly with respect to the Hanukkah Eve Storm in December 2006.**

19 A: Mr. Greg Zeller on behalf of PSE has testified that the total “qualified” storm restoration
20 costs associated with 13-weather related events during the 12-month test year totaled over
21 \$119 million, of which \$109 million were Operations and Maintenance costs.¹
22

¹ The figures in this paragraph are from Mr. Zeller’s Prefiled Direct Testimony as Revised on April 11, 2008 (Exhibit No. ____ (GJZ-1T), at pages 6 and 12.

1 “Qualified” storm events are those that meet the Commission’s previously approved
2 definition of “major event” for outages that last over one minute. These events can then
3 be deferred for future cost recovery by PSE, subject to future Commission approval of
4 the underlying costs.² Of this \$109 million, PSE deferred \$98 million of “qualified”
5 major storm expenses, which left \$11 million recorded in expenses during the test year.
6 Capital costs totaled \$11 million and are accounted for in PSE’s capital accounting
7 procedures.

8 The total storm repair costs incurred for the Hanukkah Eve Storm in December
9 2006 were identified by Mr. Zeller as approximately \$80 million. PSE has characterized this
10 storm in particular as the worst and most severe storm in recent memory in terms of the
11 widespread scale of the damage, customer outages, and costs to repair and restore service.
12 PSE proposes to amortize the December 2006 storm over six years and other major storm
13 expenses that qualify for deferral over three years. The total projected impact of these
14 proposals would decrease Net Operating Income by \$10.7 million and increase PSE’s
15 revenue deficiency by \$17.3 million.³

² This methodology was approved in Order No. 06, Docket Nos. UE-040641/UG-040640. See pp. 84-88. Under the prior definition of “qualified” storm event, more than 25 percent of PSE’s customers had to be impacted by outages due to weather-related causes. It should be noted that PSE is the only investor-owned utility with the authority to automatically defer storm-related costs. Other utilities expense such costs or seek a specific Commission waiver or approval for deferral of costs for future recovery. If the older version of “qualified” storm event had been in effect in 2006, only the Hanukkah Eve Storm would have qualified for automatic deferral. See PSE Response to Public Counsel Data Request No. 125.

³ PSE Response to Public Counsel Data Request No. 54 (First Supplemental Response).

1 **Q: Does your testimony address storm recovery costs generally?**

2 A: No. My testimony is primarily focused on the costs incurred for the Hanukkah Eve
3 Storm in December 2006. Mr. Michael Majoros on behalf of Public Counsel addresses
4 storm recovery costs generally, as well as PSE's proposals for how or whether to defer
5 and seek cost recovery over the proper amortization period. My testimony supports an
6 adjustment to PSE's requested storm recovery costs in the amount of \$4 million that is
7 specifically directed to the costs incurred for the Hanukkah Eve Storm in December
8 2006.

9 **Q: What aspects of the Hanukkah Eve Storm expenses have you reviewed and for what**
10 **purpose?**

11 A: I have not conducted an audit of the reasonableness of these costs. Nor have I conducted
12 an independent study of PSE's actions both during and after the storm. Rather, I have
13 reviewed the materials provided by PSE to the Commission in its informal investigations
14 of the Hanukkah Eve Storm (particularly the materials distributed at the February 8, 2007
15 meeting which were provided to me by the Public Counsel representatives who attended
16 the meeting), various newspaper articles about this storm and PSE's restoration efforts,
17 the materials derived from discovery in this proceeding, and, most notably, the report
18 done by KEMA, "Windstorm of December 14-15, 2006" [Puget Sound Energy Storm
19 Restoration Review, July 2, 2007], attached to Mr. Zeller's testimony as Exhibit No. ____
20 (GJZ-8).

21 **Q: Based on your review of these materials, what are your findings and conclusions?**

22 A: First, I want to state that I have no reason to criticize the good faith efforts undertaken by

1 PSE management, PSE employees, and the PSE contractors from within Washington and
2 other states that worked to restore service after this dangerous storm. However, the
3 KEMA report, and, to date, PSE's responses to the KEMA report recommendations
4 suggest that PSE did not prepare itself or its distribution and transmission system to
5 respond as effectively or as efficiently as it might otherwise have done. As a result,
6 customer service during the storm restoration efforts suffered from the lack of accurate
7 and timely information and it is more likely than not that PSE's storm restoration efforts
8 were hampered by these deficiencies. Specifically, the KEMA report identified a number
9 of "best practices" that PSE should have implemented or that were not relied upon by
10 PSE in the operations of its distribution and transmission system reliability and customer
11 service programs:

- 12 • PSE has not invested in or implemented a modern Outage Management System
13 (OMS) that would have allowed PSE to more accurately and quickly identify the
14 location and scope of the customer outages. OMS also would allow PSE to more
15 efficiently schedule outage restoration activities;
- 16 • PSE's customer communications system was deficient in that customers and the
17 public media were not able to be informed of the status of outage restoration activities
18 in their general areas;
- 19 • PSE did not effectively communicate with or have the necessary communication
20 policies and programs in place with state and local officials concerning storm damage
21 assessments or restoration schedules;

- 1 • There is evidence that PSE’s tree trimming and vegetation management policies and
2 spending levels contributed to the amount of the damage sustained in this windstorm
3 and other major weather related events in the last several years.

4 **Q: With respect to the KEMA report, please summarize the “best practices” that PSE**
5 **had not implemented and that contributed to the severity and costs associated with**
6 **the Hanukkah Eve Storm.**

7 A: KEMA identified four areas in which, if implemented, would have allowed PSE to
8 respond to the storm more effectively: (1) systems to support outage information
9 collection and management; (2) damage assessment processes to identify crew
10 requirements and estimated outage duration; (3) vegetation management processes and
11 access to rights of way for restoration; and (4) communication to customers of estimated
12 restoration times.⁴ These areas that need improvement were identified by KEMA based
13 on their review of “leading practices in emergency restoration planning and processes.”⁵

14 Specifically, KEMA highlighted the following issues and practices described
15 below.

- 16 • Annual Planning for Emergency Restoration. KEMA found that PSE’s Corporate
17 Emergency Response Plan was insufficient for a storm of the scale of the
18 Hanukkah Eve Storm and that the application and execution of this plan was “not
19 fully institutionalized” by PSE and its storm restoration contractor, Potelco.⁶

⁴ KEMA Report at 2.

⁵ KEMA Report at 2-1.

⁶ KEMA Report at 4-2.

- 1 • Emergency Restoration—Imminent Event Plan. KEMA found that many PSE
2 employees understood the magnitude of the storm and the length of time that was
3 likely to elapse prior to a significant restoration progress, but failed to publicly
4 provide restoration estimates to customers or others within PSE. Furthermore,
5 KEMA found that PSE does not have a storm classification methodology to
6 estimate storm impacts and resource requirements before and shortly after a major
7 storm strikes.⁷
- 8 • Emergency Restoration—Event Assessment. KEMA found that PSE’s formal
9 damage assessment process was not of a sufficient scale to provide adequate and
10 timely information to management during the storm.⁸
- 11 • Emergency Restoration—Execution. KEMA found that the Emergency
12 Operations Center processes and functions appeared to become more “ad hoc” as
13 pressure to respond mounted from the public. During the restoration effort, the
14 quality of the information delivered to the public “did not appear to improve as
15 time passed.”⁹
- 16 • Emergency Restoration—External Communications. KEMA found that PSE
17 should have communicated the severity of the outage to customers sooner and that
18 most customers did not receive localized restoration information. KEMA
19 particularly criticized PSE’s customer communications content in the early days

⁷ KEMA Report at 5-2.

⁸ KEMA Report at 6-2.

⁹ KEMA Report at 7-2.

1 of the storm restoration process. Communications with critical customers, media,
2 and municipalities were not well coordinated or implemented in an effective
3 manner.¹⁰

- 4 • Emergency Restoration—Customer Service. KEMA found that PSE’s call center
5 technology was “marginal” for high volume of calls during restoration efforts.
6 Among other concerns was that PSE’s inbound call system does not differentiate
7 calls by geographic origination and that it did not have the capability to
8 automatically generate individual restoration estimates. Finally, and importantly,
9 customer service representatives could not provide customers with timely and
10 accurate restoration information because of the need to manually enter restoration
11 estimates and repair times from the on-site crew. During the first three to five
12 days of this storm, restoration times were not provided into PSE’s ConsumerLinX
13 (CLX) system.¹¹

- 14 • Emergency Restoration—Information Systems and Process. KEMA identified the
15 clear lack of any modern Outage Management System installed by PSE as a
16 serious problem in the Company’s storm response. As KEMA stated, “A leading
17 OMS maintains an up-to-date distribution system connectivity model that reflects
18 the current configuration of the electric system. Reported outages are analyzed

¹⁰ KEMA Report at 8-2 through 8-5.

¹¹ KEMA Report at 9-2 through 9-5.

1 against the system model compared to the current operating status of key
2 equipment, e.g., substations, transformers, and switches.”¹²

3 A properly designed OMS will integrate the various key systems, such as
4 the customer information database, the call center menus and responses, the work
5 management system, and the mobile workforce management system. The lack of
6 OMS contributed to PSE’s inability to handle the field data volume that this storm
7 generated and translate that data into usable information. PSE has no automated
8 technology to “roll up” outage and restoration information from the field to the
9 Emergency Operations Center. The damage assessment reports are manually
10 recorded on forms that are kept near the Storm Board at the Operations Center.
11 Finally, KEMA concluded that, “The lack of an outage management system
12 severely hampered the efficiency of the restoration process.”¹³

- 13 • Vegetation Management and System “Hardening.” KEMA had positive
14 statements concerning PSE’s \$8 million per year vegetation management
15 program, tree cycle trimming, and the Tree Watch program. However, KEMA
16 stated that the narrow rights-of-way for transmission lines in heavily vegetated
17 areas significantly contributed to the severity of the damage and extended
18 restoration times. KEMA noted that 25 percent of all non-storm customer outages
19 are tree-related based on the 2006 reliability results.¹⁴

¹² KEMA Report at 10-2.

¹³ KEMA Report at 10-7.

¹⁴ KEMA Report at 14-2 through 14-3.

1 **Q: Has PSE responded to KEMA’s recommendations and agreed to implement all of**
2 **them?**

3 A: PSE has agreed to implement many of the recommendations and has undertaken many
4 reforms to revise and update its emergency management plans and practices. However,
5 several of these recommendations, particularly with respect to the lack of a modern
6 OMS, as well as deficiencies identified with respect to PSE’s protocols for
7 communication with the public and public officials suggest a measure of imprudence
8 that the Commission should not ignore in the context of this base rate case and request
9 for rate recovery of these storm damage expenses.

10 **Q: Please discuss PSE’s implementation of the KEMA recommendations concerning a**
11 **proper OMS and its impact on PSE’s ability to improve its reliability of service.**

12 A: PSE requested KEMA provide an estimate of costs and benefits associated with
13 installing an OMS and a supporting Geospatial Information System (GIS). This KEMA
14 report dated February 13, 2008 documents that the total OMS project is estimated at
15 **[Begin Confidential] XXXXXXXX [End Confidential]** and the total costs of the GIS
16 implementation is estimated at **[Begin Confidential] XXXXXXXXXXXXXXX [End**
17 **Confidential]**.¹⁵ KEMA estimates that the reduction in outage duration due to
18 automation, better management of information, and improvements in crew productivity
19 would result in Net Present Value operational benefits of **[Begin Confidential] XXXX**
20 **XXXX [End Confidential]**. When compared to the Net Present Value of the
21

¹⁵ Second Revised PSE Response to Public Counsel Data Request No.131, Attachment A (Confidential).

1 utilities that had installed OMS, including Progress Energy (Florida and North
2 Carolina), Black Hills Corp. (South Dakota), and Commonwealth Edison (Illinois).¹⁷

3 The Maine Public Utilities Commission described the implementation of GIS in
4 Maine as follows:¹⁸

5 In the PUC’s review of utility performance during Ice Storm 1998, we noted that
6 geographic information systems (GIS) proved a useful tool to a number of utilities
7 as they recovered. Federal agencies assisting the State in its recovery from the Ice
8 Storm disaster similarly highlighted the benefits of GIS for recovery from
9 emergencies and protection of critical infrastructure. Accordingly, the PUC
10 decided to expand our GIS capabilities and ability to coordinate GIS information
11 with the state’s public utilities. GIS comprises a set of computer-based analysis
12 tools that integrate common database operations (query, statistical analysis) with
13 geographic (or spatial) analysis, and visualization. GIS can relate and enable
14 analysis of data from different data models and formats, to capture, manage,
15 analyze, and output data with spatial characteristics. In addition to producing
16 detailed, accurate and informative maps, it is a powerful tool for analysis. Utilities
17 are increasingly using GIS for infrastructure management, service tracking, and
18 outage management. Federal, State, and County emergency managers looked to
19 the PUC for spatial analysis on utility issues during the ice storm and during the
20 State’s Y2k preparations, and renewed that interest in the immediate aftermath of
21 the terrorist attacks of September 2001. Consumers are increasingly seeking
22 specific information on services that are available to them in their own local area,
23 information that can readily be provided using GIS technology and the internet.
24 In 2001, we adopted a Commission Rule that requires all major utilities to provide
25 service area and infrastructure maps and data to the PUC in GIS form, phased in
26 over a period of several years to allow smaller utilities to develop GIS capabilities
27 or make other appropriate arrangements. In adopting that Rule, we described a
28 long-term goal to enable us to “maintain all records and utility information in
29 electronic form, to streamline our regulatory process and to improve the
30 efficiency of our oversight of public utilities in Maine” and pointed to GIS as a
31 “very useful device” for that process. The PUC’s stated purposes in adopting the
32 Rule were “to enhance the ability of utilities to satisfy [the statutory requirement
33 to provide “safe, reasonable and adequate facility and service”] and of the PUC to
34 review the safety, reasonableness, and adequacy of utility facilities and service, to

¹⁷ PSE Response to Public Counsel Data Request No. 491.

¹⁸ Annual Report of the Maine Public Utilities Commission (2006), available at http://mainegov-images.informe.org/mpuc/staying_informed/about_mpuc/annual_report/AnnualReport2006-Final.pdf See page 12.

1 respond to the most frequent requests for service area information received by the
2 PUC, and to facilitate our support of emergency management planning activities.”
3

4 Furthermore, there is a great deal of research and data available on the benefits of
5 OMS. A search of the Edison Electric Institute website for articles and presentations on
6 OMS resulted in 54 documents, many of which are presentations by utility executives and
7 consultants at EEI-sponsored conferences that describe utility OMS systems and their
8 benefits in use for many years.¹⁹ As a result, the fact that PSE had not confronted the
9 need for or assigned the priority associated with an upgraded OMS and GIS to improve
10 its reliability performance is disturbing.

11 **Q: Have other state commissions evaluated major storm and emergency response**
12 **practices for electric utilities and, if so, with what result?**

13 A: Based on my experience in Maine, Pennsylvania, New Jersey, and my awareness of
14 major storm reports and evaluations of major storm restoration events in Illinois, the
15 District of Columbia, and South Carolina, there is a strong body of work dating back
16 many years that identifies some of the same defects and problems that KEMA identified,
17 particularly those associated with customer communications and coordination of
18 information to the public and public officials. In my opinion, PSE should have been
19 more aware of what could go “wrong” and should have been able to better handle its
20 communications about the severity of the storm, the length of outage restoration, and

¹⁹ See, <http://www.eei.org/search/index.htm?search=OMS>.

1 communicate more informatively and effectively with the public and public officials.

2 I do not understand why the “best practices” identified by KEMA in its report should not
3 have been known to PSE and integrated into its reliability projects and priorities.

4 **Q: Can you provide examples of other state regulatory commission reports on major**
5 **storm events that document the same generic problems that KEMA identified as**
6 **applicable to PSE’s storm restoration and communication processes that should**
7 **have been known to PSE?**

8 A: Yes. The State of Maine endured a dramatic and catastrophic Ice Storm in January 1998.
9 The Storm resulted in outages that impacted over half the citizens of Maine and
10 thousands of customers (including myself) were without power for over a week. In the
11 largest public utility, Central Maine Power Co. (CMP), 37 transmission line segments
12 stretching over 500 miles were without service. CMP had to replace more than 3,000
13 broken distribution poles and more than 1 million feet of cable/line. At the peak of the
14 storm 52 percent of its customers were without power. The second largest utility, Bangor
15 Hydro-Electric Co., suffered even more significant damage to its transmission system
16 because one of its main lines suffered extensive damage with over a 5 mile stretch lying
17 flat on the ground. The Maine PUC’s investigation found that the widespread nature and
18 severity of the damage overwhelmed most utilities’ emergency plans and the PUC made
19 recommendations designed to improve utility processes and response for future storms.²⁰

²⁰ Maine PUC, Inquiry into the Response by Public Utilities in Maine to the January 1998 Ice Storm, Order, Docket No. 98-026 (December 29, 1998). Even at this time the Commission noted that GIS had proved to be a very useful tool to the electric utilities in their storm restoration efforts. See discussion at page 45. Clearly, GIS had already been installed in some form by the late 1990’s by Maine electric utilities.

1 The PUC noted that GIS proved a “useful tool” in ice storm recovery.

2 In January 2003, another winter storm event occurred, which, although not as
3 severe, resulted in another Maine PUC investigation.²¹ In this investigation the PUC
4 found that utilities had not fully implemented the recommendations that had resulted
5 from the 1998 Ice Storm investigation. Much of the focus of the 2003 investigation and
6 its ensuing recommendations was on the coordination and communication between the
7 utility and local emergency management officials, including the need for more proactive
8 communications with such officials on the part of the utility, the need for formal
9 emergency coordination agreements with county emergency management agencies, the
10 need for formal coordination agreements among the utilities, the need for a formal
11 priority restoration matrix, written information filed with the commission on the location
12 of emergency generators, etc. In short, many of the communication protocols and
13 processes that KEMA identified in PSE’s response to the Hanukkah Eve Storm were
14 noted in the Maine investigations in 1998 and 2003.

15 In the fall of 2003, Tropical Storm Isabel hit Pennsylvania and other Mid-Atlantic
16 states. On behalf of the Pennsylvania Office of Consumer Advocate, I participated in a
17 Pennsylvania PUC proceeding to respond to an investigation of FirstEnergy companies in
18 Pennsylvania concerning reliability of service.²² During that investigation I reviewed the

19

²¹ Maine PUC, Investigation into the Adequacy of Utility Services in Maine During Power Outages, Order, Docket No. 2002-151 (November 14, 2003). Available at the Maine PUC website: www.state.me.us/mpuc.

²² Pennsylvania PUC, Investigation into Metropolitan Edison Co., Pennsylvania Electric Co., and Pennsylvania Power Co. Reliability Performance, Docket No. I-00040102 (Testimony of Barbara Alexander, June 21, 2004). This proceeding resulted in a settlement filed on September 30, 2004, subsequently approved by the Commission.

1 utility's call answering and customer communication protocols in handling this storm
2 restoration effort. My testimony documented difficulties in customers attempting to
3 contact the utility and obtain an estimate of restoration activity, as well as complaints
4 from local emergency management officials on their inability to communicate with the
5 utility. This investigation resulted in a settlement in which the Pennsylvania utilities
6 promised to undertake a number of reforms, many of which addressed the same issues
7 contained in the KEMA report to PSE.

8 The District of Columbia Public Service Commission (PSC) also investigated
9 Pepco's response to Hurricane Isabel. The PSC found that the outage management
10 system in use by Pepco had not worked properly and directed the utility to upgrade and
11 make modifications to its OMS so that the system would respond and work properly for
12 such a significant storm event in the future. Three areas of concern identified by the PSC
13 related to the high volume call answering interface, the processing of momentary breaker
14 operations, and the overall performance/throughput of the OMS. Pepco subsequently
15 upgraded its OMS in 2004.²³

16 These examples are intended to point out that the types of communication
17 failures, as identified by KEMA, made by PSE in its Hanukkah Eve Storm response
18 should have been anticipated by PSE. This supports my conclusion that the "best
19 practices" identified by KEMA that were not implemented by PSE should be taken into

²³ D.C. Public Service Commission, Formal Case 982, Order No. 13381 (September 14, 2004). This Order and the D.C. Commission's 2004 Annual Report (see pages 18-19) describing the Isabel investigations and results can be accessed at the Commission's website: www.dcpsc.org.

1 consideration by the Commission in its decision as to whether to grant full recovery of
2 the costs incurred by PSE.

3 **Q: Did PSE promptly implement the KEMA recommendations concerning reforms to**
4 **its Community Messaging System?**

5 A: No. These reforms were delayed. Phase I will not be implemented until the end of the
6 first quarter of 2008.²⁴ Several recommendations relating to providing more immediate
7 outage information and estimated restoration times from Day 1 are categorized as “Under
8 Consideration for Accomplishment by 2008-2009 Storm Season.”²⁵ Many other
9 recommendations about external communications and customer service improvements
10 are categorized as “Under Consideration for Longer Term Initiatives.”²⁶ This
11 information suggests that PSE either has not or cannot respond promptly to the serious
12 concerns raised by the KEMA report in these important areas.

13 **Q. How should the Commission respond to your review of PSE’s handling of the**
14 **Hanukkah Eve Storm in the context of this base rate case?**

15 A: I recommend that the Commission disallow the recovery of 5 percent of the \$80 million
16 costs associated with PSE’s request for recovery of costs for the Hanukkah Eve Storm,
17 equal to approximately \$4 million. I fully acknowledge that this figure is not based on a
18 specific dollar amount of imprudent expenditures. Rather, it is a fair approximation of
19 PSE’s failures to adopt OMS and the benefits that were identified in the KEMA analysis

²⁴ PSE Response to WUTC Data Request No. 48.

²⁵ PSE Response to WUTC Staff Data Request No. 54, Attachment A.

²⁶ PSE Response to WUTC Staff Data Request No. 54, Attachment A.

1 of the costs and benefits of OMS that I discussed earlier in my testimony. Moreover, this
2 amount is intended to also reflect the defects in PSE’s customer call center processes
3 concerning restoration efforts, and PSE’s failures to properly communicate with or
4 integrate storm restoration activities with local emergency management officials. All of
5 these concerns and lack of “best practices” are identified in the KEMA report. It is not
6 fair to PSE’s ratepayers for PSE to merely promise to “do better” next time or to invest in
7 system processes and practices in the future (and presumably seek rate recovery for these
8 new investments and costs) when improvements and investments should have been
9 undertaken prior to the 2006 storms.

10 **III. PSE’S SERVICE QUALITY PERFORMANCE AND STRUCTURE OF**
11 **THE SQI**

12
13 **Q: First, describe the current SQI and PSE’s recent performance.**

14 A: The SQI was originally created in the stipulated settlement of the 1996 merger between
15 Puget Sound Power & Light Co. and Washington Natural Gas Co. in Docket Nos. UE-
16 951270 and UE-960195. The SQI was reviewed and modified in PSE’s General Rate
17 Case in 2002 in Docket Nos. UE-011570 and UG-011571. As a result of the 2002 rate
18 case, the SQI was continued indefinitely beyond its original five-year term, some of the
19 metrics were modified, and the total potential penalty amount was increased.

20 The current SQI contains 11 service quality performance metrics. There is a
21 maximum penalty of \$10 million that is applied in a predetermined formula when PSE
22 fails to meet one or more standards. Exhibit No. ____ (BA-3) sets forth the current
23 performance areas and performance standards that PSE must meet on an annual basis.

1 Also included in this exhibit are PSE's actual performance results between 1997 and
2 2007.

3 As Exhibit No. ____ (BRA-3) demonstrates, PSE has failed to meet the System
4 Average Interruption Duration Index (SAIDI) standard of 136 minutes per customer per
5 year in 2006 (214) and 2007 (167). This level of performance shows a significant
6 deterioration from the performance baseline requirement equal to 57 percent in 2006 and
7 23 percent in 2007.²⁷ PSE's failure to meet the SAIDI benchmark has resulted in a
8 penalty of \$1 million in 2006 and \$513,000 in 2007. Additionally, PSE has routinely
9 failed to meet the Overall Customer Satisfaction benchmark of 90 percent since 2000, but
10 there is no penalty attached to this performance measure. PSE's annual service quality
11 reports filed with the Commission also indicate that the company has met the annual
12 average call center performance standard of answering 75 percent of the calls that seek to
13 speak with a customer representative within 30 seconds. PSE has reported their annual
14 performance results for 2005, 2006 and 2007 at exactly 75 percent, the minimum
15 performance standard.

16 **Q: Do you recommend any change in the overall penalty dollars at risk for PSE's**
17 **compliance with the SQI?**

18 A: While I do not recommend any structural change to the SQI design, I do recommend that
19 the total dollar amount of penalties be increased to reflect the revenue growth that PSE
20 has experienced since the penalty was increased from \$7.5 million to \$10 million in 2002.

²⁷ 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 PSE's retail jurisdictional revenues grew from \$1.9 billion in 2002 to over \$3 billion in
2 2007.²⁸ I recommend an increased total penalty amount of \$15 million be applicable to
3 the SQI metrics. This represents approximately 0.5 percent of these retail gas and electric
4 revenues and continues the historical approach to establishing a penalty level that reflects
5 PSE's revenues. After all, if the penalty dollars do not increase to reflect the growth in
6 revenues there is a risk that PSE could consider penalty dollars as "worth" the cost of
7 failing to deliver reasonable service quality and reliability to its customers. This \$15
8 million should be allocated equally to the 10 SQI metrics (\$1.5 million per metric) that
9 carry the risk of penalties for the failure to meet the annual standard. The penalty dollars
10 should be calculated in the same manner as in the past, but the dollars per point of
11 deterioration should be increased by 50 percent to reflect the increased total penalty
12 dollars at risk.

13 **Q: With respect to the failure to meet the SAIDI performance standard, do you have**
14 **any comments on PSE's explanation for this failure?**

15 A: Yes, I do. SAIDI is calculated by excluding "major storms." The definition of "major
16 event" used by PSE for calculating SAIDI and System Average Interruption Frequency
17 Index (SAIFI) excludes outages due to an event that results in more than 5 percent of
18 PSE's customers experiencing an outage, as well as those additional days when those

²⁸ 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 affected customers have service restored. This definition of “major event” was included
2 in the original SQI.

3 However, this definition of “major event” is different from that used to trigger
4 PSE’s ability to defer and seek later recovery of major storm damage costs. The SQI
5 definition allows a much greater range of storms and storm events to be excluded from
6 SAIDI and SAIFI.²⁹ Furthermore, compared to the definitions used in other states to
7 calculate SAIDI and SAIFI, PSE’s definition is very liberal, in that more events can be
8 excluded from the measured performance results. For example, in Michigan,³⁰
9 Pennsylvania,³¹ and New Jersey³² the reliability rules and performance standards allow
10 for major event or major storm exclusions only when 10 percent of the utility’s customers
11 experience an outage due to the event or storm. Therefore, PSE’s performance with
12 regard to reliability of service, as reflected in their SAIDI performance, deserves to be
13 viewed as a serious failure.

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

15 A: PSE has not undertaken a formal analysis of the “root causes” of the performance
16 standard failures. The company has typically blamed weather-related events that do not
17 qualify as “major events” as the cause of this failure. PSE’s 2006 System Performance

²⁹ PSE does not identify the number of minutes and outage events that are excluded from its calculations of SAIDI and SAIFI in its annual service quality reports. I recommend that it do so in the future.

³⁰ 2004 MR 3, R 460.702 (eff. 2004). See definition of “catastrophic conditions.” Available http://www.state.mi.us/ort/emi/admincode.asp?AdminCode=Department&Dpt=LG&Level_1=Public+Service+Commission

³¹ 52 Pa. Code §57.192. See definition of “major event.” Available at <http://www.pacode.com/secure/data/052/chapter57/subchapNtoc.html>

³² See N.J.A.C. 14:5-7.2. See definition of “major event.”

1 Annual Review³³ describes the abnormal number of weather events in 2006, stating that
2 the same number of localized non-major weather related events occurred in 2006
3 compared to 2003-2005 combined. The System Performance report then states that
4 “[o]nce we’ve reviewed our response to these weather events and evaluated what can be
5 done to modify sections of our electric system to improve performance, we will be
6 considering infrastructure additions and modifications.”³⁴ The 2007 Service Quality
7 Annual Report points to the wind storms in January 2007 that did not meet the “major
8 event” exclusion criteria and so adversely impacted the annual SAIDI results.³⁵

9 Despite this statement in the 2006 System Performance Programs Report, there is
10 no evidence that such analysis or targeted additions and modifications were actually
11 identified or implemented. Furthermore, this same report documents that the vegetation
12 management program (tree trimming, etc.) targeted fewer distribution and transmission
13 miles in each of the recent years (2,198 miles in 2004 down to 1,656 miles in 2006).³⁶ It
14 is certainly possibly that a formal root cause analysis could conclude that the reductions
15 in the vegetation management program contributed to the SAIDI performance failures.

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

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

6 **Q: What is your recommendation with respect to PSE’s failure to meet the SAIDI**
7 **standard for two consecutive years?**

8 A: The fact that PSE has a very generous exclusion rule for “major storms” in the SAIDI and
9 SAIFI calculations suggests that the recent failure to meet SAIDI for two years in a row
10 is even more significant. I am particularly concerned that PSE has not developed a
11 formal plan to assure compliance and that their analysis of this failure to date is
12 superficial and not designed to assure future compliance. I recommend that any failure to
13 meet the annual performance standard for any metric should require PSE to submit an
14 enforceable compliance plan that demonstrates how the Company will meet the standard
15 the following year. This compliance plan should have specific milestones and reporting
16 requirements to demonstrate progress in meeting the standard.

17 Second, the penalty structure should reflect a higher level of penalty when the
18 performance standard is not met for two consecutive years. I recommend that the
19 otherwise applicable penalty dollars be doubled for the second consecutive failure. Any
20 such penalty that is incurred pursuant to this proposal would be in addition to the
21 maximum \$15 million penalty at risk. If this additional penalty had been in place for
22 2007, PSE would have incurred an additional penalty of approximately \$500,000. I

1 recommend that PSE be penalized at least this amount either through a disallowance from
2 PSE's revenue requirement in this proceeding or as a separate one-time penalty payment
3 to customers. This recommendation reflects PSE's failure to meet SAIDI for two
4 consecutive years and because PSE's response to the 2006 and 2007 failure to meet the
5 standard has been inadequate. This penalty or disallowance is appropriate due to PSE's
6 failure to take the continuing failure to meet the SAIDI standard seriously and develop
7 and implement a formal compliance plan.

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

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

22 I recommend that the Commission add another provision to the existing Customer

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

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

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

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

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 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.

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

4 **Q: Does PSE analyze and determine the root cause of customer complaints concerning**
5 **reliability of service?**

6 A: It does not appear that the Company does so. PSE's identifies customer complaints about
7 reliability or quality of service and lists them in its annual Electric System and Reliability
8 Reports. However, there is no evidence that this data is analyzed or "mined" for
9 information that then feeds back into the Company's reliability programs and policies.⁴²
10 Rather, the Company's focus appears to be limited to responding to the individual
11 complaints, which is of course important, but not sufficient to assure that the Company's
12 reliability programs are sufficient or properly targeted.

13 **Q: What is your recommendation with regard to PSE's analysis of customer**
14 **complaints concerning reliability of service?**

15 A: I recommend that PSE's annual reliability reports do more than merely list customer
16 complaints about reliability of service. In addition, PSE's reports should reflect an
17 analysis and identification of patterns or practices with respect to customer complaints.

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

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. 95.

1 A: For 2005, 2006, and 2007, PSE reports that it has met the annual average call answering
2 standard of answering 75 percent of the calls that seek to speak with a customer
3 representative within 30 seconds. That is, in each of those years, PSE has reported their
4 performance results at exactly 75 percent. PSE has a high rate of calls handled by the
5 automated Voice Response system: 48 percent in 2006 and 42 percent in 2007 of all
6 incoming calls were handled through the automated menu and did not require an
7 “answer” by a representative.⁴³ This should allow PSE to answer more calls at a faster
8 rate, but the range of monthly call answering performance is very wide—and is
9 particularly poor in the early months of the year (winter) and much better in the summer.
10 For example, in early 2007 PSE only answered 39 percent (January), 48 percent
11 (February), and 50 percent (March) of the calls within 30 seconds. The same pattern of
12 very poor performance in these months is evident in 2006.⁴⁴

13 PSE staffs its call center with a mixture of “on-site” representatives and those that
14 work from their homes. A monthly average of 165 representatives was physically present
15 at the call center in 2007. A monthly average of 19 worked from home. However, the
16 number of those who worked at home increased each month in 2007, reaching 27 per
17 month for the period August through December 2007.⁴⁵

18 PSE also tracks additional call answering performance metrics, but these metrics
19 are not part of the SQI, nor are they included in PSE’s annual service quality reports to

⁴³ PSE Response to Public Counsel Data Request No. 82, Attachment A. See also PSE Response to Public Counsel Data Request No. 138.

⁴⁴ PSE Response to Public Counsel Data Request No. 652, Attachment A.

⁴⁵ PSE Response to Public Counsel Data Requests Nos. 106, 492, and 624.

1 the Commission. PSE records the Average Speed of Answer for customer calls, e.g., the
2 average number of seconds or minutes to answer each call. In 2006 this was 50 seconds
3 and in 2007 this was 63 seconds, indicating a deteriorating level of service quality that is
4 not reflected in the annual average of calls answered over 30 seconds. Finally, PSE has a
5 fairly high “abandonment rate,” the percentage of callers who abandon their call after
6 joining the queue: 5.65 percent in 2006 and lower at 3.8 percent in 2007. PSE does not
7 track or know the “busy out rate,” the rate at which callers encounters a busy signal and
8 thus are unable to even get into the queue.⁴⁶ This is important because it is possible that
9 during busy hours, such as during widespread outages, customers cannot get through to
10 PSE at all and even join the queue. These calls are not being captured in the call
11 answering performance areas that are measured in the SQI. PSE can obtain this
12 information from the phone service provider and it is a metric that is included in some
13 service quality performance plans elsewhere.

14 **Q: What recommendation do you make with respect to how the SQI measures call**
15 **center performance?**

16 A: With respect to metrics that measure call answering performance, I recommend that the
17 current metric be changed from an annual standard to a quarterly standard. This would
18 require PSE to answer 75 percent of customer calls within 30 seconds for each quarter.
19 Each quarter’s performance should carry a maximum penalty equal to one-fourth of the
20 annual penalty at risk for this performance area. It is clear that PSE’s performance

⁴⁶ PSE Response to Public Counsel Data Request No. 82, Attachment A. See also PSE Response to Public Counsel Data Request No. 83.

1 reflects significant swings in performance level and that the Company is allowing poor
2 performance in early months to be offset by better performance later in the year when the
3 monthly performance indicates that the annual standard will not be met. Customers
4 deserve a more acceptable level of performance throughout the year. Finally, I
5 recommend that PSE be required to report on its monthly and annual call abandonment
6 rate and busy out rate as part of its annual SQI report, although I do not recommend any
7 penalty dollars associated with these reporting metrics at this time.

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

10 A: Pursuant to previous approval by the Commission, customers are informed of the annual
11 service quality results and the dollar amount of any penalty that results for the failure to
12 meet a performance standard in a PSE “report card” to customers. The penalty dollars
13 are credited to the Electric Conservation Service Tracker as an offset to the tariff rider
14 account.

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

17 A. Yes. I recommend that SQI penalty dollars be returned directly to customers in the form
18 of a one-time bill credit that is appropriately identified on customer bills as a result of a
19 service quality failure. PSE’s customers should see the results of the SQI performance as
20 a direct reduction in their overall rates. While I do not suggest that anything incorrect has
21 occurred in the prior method of handling SQI penalty dollars, it is appropriate that the
22 customers be informed of the impact of SQI failures directly since one of the key

1 purposes served by the SQI mechanism is to link the rates that customers pay with PSE's
2 customer service performance. Furthermore, the current method of applying any SQI
3 penalty dollars to the Electric Conservation Service Tracker is complicated and confusing
4 because of the need to assure that shareholders and not ratepayers bear responsibility for
5 any SQI penalty payments to customers.

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

8 A: PSE does track customer satisfaction with its service provider contractor services and
9 reports these results to the Commission annually in a Service Provider Report. The
10 results of customer satisfaction with new customer construction dropped dramatically in
11 2007 compared to 2006, which PSE attributes in part to the volume of storm recovery
12 work that took precedence over new service installation. PSE has developed customer
13 satisfaction level objectives or targets for their contractors, but these targets were not met
14 in 2007. Furthermore, the target satisfaction levels are different, 83 percent for the gas
15 contractor and only 75-78 percent for the electric construction contractor.⁴⁷ The current
16 SQI, in contrast, requires that the transaction-based customer satisfaction survey results
17 show a 90 percent customer satisfaction performance. In fact, when the SQI was
18 modified as part of the 2002 PSE rate case settlement, all three customer satisfaction
19 measures were set at 90 percent. However, the survey results for new customer

⁴⁷ PSE Response to WUTC Staff Data Request No. 164.

1 installation reflected in these Service Provider reports are not reflected in the SQI
2 customer satisfaction transaction surveys.⁴⁸

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

5 A: I recommend that PSE be required to include penalties in its outside contractor
6 agreements so that the failure to meet customer satisfaction targets is linked to payments
7 to the contractors. With respect to the proper customer satisfaction targets, there is no
8 reason why these satisfaction targets should be any different than those already applicable
9 to PSE in the SQI for its field operations, i.e., 90 percent. PSE should then report on any
10 penalties incurred in its outside contractor agreements to the Commission as part of the
11 current Service Provider Reports that are filed annually. Any penalty dollars paid for
12 substandard contractor performance will result in lower costs incurred by PSE for the
13 contracted services, in effect providing a benefit to PSE because the expected costs for
14 these contracted services are reflected in the revenue requirement. In the event that
15 contractor performance results in penalties, any penalties should be added to any penalty
16 dollars incurred by PSE under the SQI and paid to customers. This approach will ensure
17 that shareholders bear the risk of any poor performance by PSE's contractors.

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

⁴⁸ PSE Response to WUTC Staff Data Request No. 187.

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

3 A: Yes. PSE is required to respond to Gas and Electric safety calls and appear on site within
4 55 minutes on average over an entire year. In other words, PSE's actual performance
5 will naturally vary, but the average response time during the entire year must be 55
6 minutes or less. I asked PSE to restate their recent performance using a different
7 performance standard that is used in other service quality plans with which I am familiar,
8 that is, to provide the percentage of response calls in which PSE arrived within 60
9 minutes. Based on this response, it appears that PSE responded to gas safety calls within
10 60 minutes in 2007 only 86 percent of the time and there is a noticeable deterioration
11 from 2005 through 2007.⁴⁹ PSE's response to electric safety calls shows a similar
12 deterioration in performance.

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

15 A: Yes. I think that the annual average of 55 minutes allows a much broader range of
16 acceptable performance than should be permitted for responding to safety calls,
17 particularly with natural gas service. I recommend that the performance standard require
18 PSE to answer 95 percent of such calls within 60 minutes. According to one natural gas

⁴⁹ PSE Response to Public Counsel Data Request No. 672, Attachment A.

1 utility in Pennsylvania, this is an “industry average” for natural gas utilities. In addition,
2 this standard is in effect for Massachusetts natural gas utilities.⁵⁰

3 **IV. PSE’S INCENTIVE PAYMENT PROGRAM IS FLAWED BECAUSE OF**
4 **THE MANNER IN WHICH SERVICE QUALITY PERFORMANCE IS**
5 **REFLECTED IN THE PROGRAM**
6

7 **Q: Please describe PSE’s proposed incentive compensation program for its executive or**
8 **management employees.**

9 A: In his testimony, Mr. Thomas Hunt, on behalf of PSE, seeks rate recovery for the
10 incentive payments provided to its employees. PSE’s incentive payment program for
11 their executives contains a financial goal based on earnings per share. This portion of the
12 goal makes up 70 percent of a person’s incentive opportunity. An individual or team goal
13 makes up 30 percent of the incentive opportunity. Under PSE’s incentive program
14 design, service quality performance impacts both the financial and the individual/team
15 goal by modifying the award up or down. If 9 of 11 SQI metrics are met, 90 percent of
16 the incentive is earned. If 10 of 11 of the metrics are met, 100 percent of the incentive is
17 earned.⁵¹

18 **Q: Do you approve of the design of this incentive compensation plan with respect to the**
19 **impact of service quality performance?**

⁵⁰ 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>

⁵¹ See PSE Response to Public Counsel Data Requests Nos. 437 through 442 for a description of the operation of the incentive payment program.

1 A: No. PSE executives should not earn any incentive payment if the utility fails to meet any
2 of the SQI performance requirements and certainly should not earn 90 percent of the
3 available incentive if 9 of the 11 metrics are met. In 2006 and 2007 PSE failed to meet
4 the SAIDI standard and paid a penalty of \$1 million and \$0.5 million, respectively.
5 PSE's executives should not be rewarded for this performance. I recommend that any
6 rate recovery of salaries and incentive payment reflect a removal of any costs associated
7 with this incentive payment program. Mr. Michael Majoros, on behalf of Public Counsel,
8 also makes recommendations about PSE's proposal to include incentive payment in its
9 revenue requirement.

10 V. PSE'S PROPOSALS TO DRAMATICALLY INCREASE FIXED
11 MONTHLY RESIDENTIAL CUSTOMER CHARGES
12

13 **Q: Please describe PSE's proposals to increase fixed monthly customer charges for**
14 **residential customers as part of its rate design and cost allocation proposals in this**
15 **proceeding.**

16 A: PSE Witness Janet Phelps proposes an increase in the fixed monthly customer charge for
17 gas service from \$8.25 to \$18.00 and David Hoff proposes an increase in the fixed
18 monthly customer charge for electric service from \$6.02 to \$9.00. The proposal to
19 increase the gas monthly charge to \$18.00 would result in a 118 percent increase from the
20 current monthly charge. The proposal to increase the electric monthly charge to \$9.00
21 would result in a 50 percent increase from to the current monthly customer charge. Both
22 witnesses claim that these higher fixed monthly charges reflect a proper allocation of
23 costs, that they send the proper "price signal," that the resulting bill impacts are fair and

1 reasonable, and that customers will better understand their utility bill and the basis for
2 their charges with such a change.⁵²

3 **Q: Does your testimony propose a fixed monthly customer charge based on an analysis**
4 **of PSE's cost of service?**

5 A: No. My testimony focuses on the policy issues and bill impacts associated with PSE's
6 proposals for these fixed monthly customer charges. Mr. Glenn Watkins testifies on
7 behalf of Public Counsel as to the proper or appropriate level of fixed monthly customer
8 charges.

9 **Q: Please summarize your response to the dramatic increases in fixed monthly**
10 **customer charges proposed by PSE.**

11 A: It is not appropriate, fair, understandable, or necessary to increase fixed customer
12 monthly charges for residential customers in the amount or to the degree proposed by
13 PSE. Mr. Hoff and Ms. Phelps attempt to portray their proposals as beneficial to
14 customers and in line with the manner in which other services are purchased. However,
15 in my opinion, the real intent of PSE's proposal is to ensure the utility of more certainty
16 in revenue recovery and ability to earn its desired level of profits.

17 I discuss in more detail below the impact PSE's proposed fixed monthly charges
18 would have on customers with low, medium, and high usage levels. This analysis will

19

⁵² See Hoff Direct at 35-51. For example, Mr. Hoff states that paying higher fixed monthly charges will benefit residential customers because the bill will be more stable and more predictable. [at 23] See Phelps Direct at 41-49.

1 show that high fixed customer charges do not send proper “price signals” to customers.
2 Indeed, the highest users would see the most beneficial bill impact because the higher
3 monthly charge is offset by lower volumetric charges. As a result, there is certainly no
4 price signal to use less with this proposed approach to rate design. Furthermore,
5 residential customers with lower than average usage will experience higher bills. PSE’s
6 proposal turns the notion of what most customers understand to be the basis for their bill
7 on its head—under PSE’s proposal, the more you use, the less you pay and the less you
8 use, the more you pay. Many lower usage customers would see this as unfair and I
9 expect that customer dissatisfaction with such a rate structure would be significant.

10 **Q: Please discuss in more detail the impact of PSE’s proposed fixed monthly customer**
11 **charges on residential customers under various usage levels.**

12 A: If approved, the impact of PSE’s proposed increased monthly customer charge (even
13 taking into account the lowered distribution usage rate when costs are shifted to the fixed
14 monthly charge) would result in lower usage customers seeing a higher bill impact
15 compared to higher usage customers. This is particularly true for the dramatic increase in
16 the gas customer charge to \$18.00. In PSE’s response to Public Counsel Data Request
17 No. 60, the Company provided an analysis of bill impacts reflecting the combination of
18 their proposed rate increase and the new customer charge, and the transfer of
19 revenues/costs from the usage side of the bill to the fixed charge portion of the bill. The
20 bill impacts for low, average, and above average usage customers were compared to the
21 bills that would result from an equal percentage application of the proposed rate increase.
22 The Company’s response showed that a higher than average usage electric customer

1 would see a total annual bill decrease of almost \$12.00, but a lower than average usage
2 electric customer would see a \$16.29 annual increase. A high usage gas customer would
3 see an annual bill decrease of \$29.39, but a lower than average usage gas customer would
4 see a \$26.24 annual bill increase. The range of these bill impacts is significant and should
5 be relied upon to reject this proposal. I have attached PSE's response to Public Counsel
6 Data Request No. 60 showing these bill impacts on electric customers as Exhibit No. ____
7 (BRA-4). I have also attached PSE's response to Public Counsel Data Request No. 483
8 showing bill impacts on natural gas customers as Exhibit No. ____ (BRA-5).

9 **Q: What impact will this proposed rate design change have on low-income customers?**

10 A: PSE's response to Public Counsel Data Requests Nos. 60 and 483 also includes the
11 impact of the proposed customer charge on "bill assisted" customers. On average, low-
12 income customers use less electricity and gas than higher income customers. This fact is
13 documented in national and regional studies of energy usage and income.⁵³ PSE does not
14 have much data with respect to its low-income customer base and their usage profile
15 because the only data they have is for those customers identified as participating in
16 LIHEAP and PSE's HELP low-income rate assistance program. That data is not
17 necessarily representative of all low-income customers due to the low penetration rate for
18

⁵³ The U.S. Energy Information Administration gathers data on residential energy consumption and household income every two years. This Residential Energy Consumption Survey shows that average household consumption of both electricity and natural gas by LIHEAP eligible customers (those with income at or below 150 percent of federal poverty guidelines) is lower than other usage by non-LIHEAP eligible customers in every Census Region. In the West region, LIHEAP eligible customers on average use 19 percent less for electricity and 7.9 percent less for natural gas.

1 these programs and the fact that the electric HELP customer database is heavily
2 influenced by the presence of electric heat, i.e., it is likely that the higher use low-income
3 electric heat customers are overly represented in HELP. Thus, while PSE's charts might
4 show the impact of the proposed increased customer charge on low-income customers
5 that participate in HELP, the charts may not reflect the impacts on low-income customers
6 generally. Nonetheless, the bill assisted low-income gas customer will see an even
7 higher bill impact than the non-low-income higher usage customer in the annual amount
8 of \$38.28. Mr. Hoff's charts in his testimony show that 60 percent of the low-income gas
9 customers (i.e., those that receive HELP) will see higher bills and pay out \$150,000 more
10 than they would have paid compared to a rate design that spreads the rate increase in an
11 equal application, while 40 percent of this same group will pay \$95,000 less.⁵⁴ As a
12 result, PSE's proposed rate design change will result in a net \$55,000 increase in gas
13 revenues from low-income customers – those least likely to have the ability to pay
14 higher prices for essential utility service. When one realizes the HELP program
15 penetration is around 10-12 percent, it is clear that the impact on non participant low-
16 income households would be substantial.

17 The PSE charts for electric low-income customers show that HELP customers
18 with above average usage will see a decrease of \$17.05, and those with a below average
19 usage will see an increase of \$12.47, a level of increase that is less than the non-low-
20 income residential customer profile. Of course, as I indicated earlier, the HELP

⁵⁴ Exhibit No. ____ (DWH-1T), p. 46.

1 customers in this sample have a high penetration of electric heat which would
2 substantially increase their electric usage compared to non-electric heat customers.

3 **Q: Do you agree with Mr. Hoff that PSE's customers will understand and accept the**
4 **significant increase in fixed customer charges?**

5 A: No. In fact, when other gas utilities have proposed significant changes in rate design to
6 recover more revenues through fixed monthly charges or other variations on this theme,
7 there has been a strong adverse public reaction. Customers will interpret this change in
8 their utility bill as an attempt to "punish" them for lowering their usage.

9 When the National Fuel Gas Distribution Co. (NFGD) in Pennsylvania proposed
10 in a 2006 rate case to increase the monthly customer charge from \$12.00 to \$20.64, as
11 well as to significantly increase the volumetric charge associated with the first block of
12 usage on the utility's current rate design, customers reacted in a very negative manner.
13 While NFGD presented this rate design proposal as one to stimulate their investment in
14 conservation, customers were not impressed. In public meetings and letters to the
15 Pennsylvania Commission, consumers opposed this proposal, stating they would be
16 "punished for trying to conserve." The reaction was so adverse that the utility removed
17 this proposal from their base rate request and settled the case without any increase in the
18 customer charge.

19 **Q: What signal is being sent with regard to conservation with respect to proposals to**
20 **significantly increase monthly customer charges and reduce volumetric rates?**

21 A: The obvious signal when a utility seeks to increase the fixed monthly charge and then
22 remove the corresponding revenues from volumetric rates is that conservation is not

1 important, because conservation or lower usage will result in a higher bill compared to
2 the customer's current usage. Since rate design is a "zero sum" game, an increase in the
3 fixed customer charge will reduce the applicable volumetric charge, assuming no other
4 rate change is pending. However, when customers reduce their usage through
5 conservation it is only the energy or volumetric charge that is impacted. The lower the
6 energy charge, the lower the incentive or savings from conservation. In fact, customers
7 with the most usage will see a bill decrease when compared to a bill resulting from
8 traditional design. PSE's proposal is not appropriate and would undermine efforts to
9 educate its customers about the importance of energy efficiency and conservation.

10 **Q: What about those customers who do use more than average, and who are no doubt**
11 **putting additional costs on the system to support their additional usage in terms of**
12 **electric generation supply and natural gas supply, as well as investments in new**
13 **distribution facilities? Shouldn't PSE address this issue?**

14 A: It would be reasonable for PSE to explore changes to its rate design to send the proper
15 "price signal" to higher than average usage customers. This might involve an analysis of
16 various rate design changes, such as those that charge a higher volumetric rate for higher
17 tiers of usage levels, such as already exists for PSE's electric service rate design. PSE
18 might also evaluate changes to how it bills its seasonal use customers. Alternatively, PSE
19 could conduct an evaluation of its current line or main extension cost recovery policies.
20 However, PSE has not evaluated any alternatives to its proposed increase in the fixed

1 monthly charge.⁵⁵ This is true even though PSE acknowledges that higher usage
2 customers impose higher generation supply costs, both in total and on a per kWh basis.⁵⁶
3 As a result, it is not appropriate to conclude that PSE’s proposal, which has focused
4 solely on increasing the fixed monthly customer charge, is a “good” or even “acceptable”
5 solution to some of the reasons raised by PSE in its justification for this proposal.

6 **Q: When a utility seeks to shift revenues from volumetric charges to fixed monthly**
7 **charges, what is the ultimate result in terms of who bears the risk of a utility’s**
8 **ability to earn a fair rate of return?**

9 A: PSE’s proposal to increase its fixed monthly customer charge is an effort to shift risk
10 from its shareholders to its customers. However, low use or average use residential
11 customers typically cannot respond to these “price signals” in the same manner or with
12 the same expertise as PSE and its managers. In other words, customers cannot
13 necessarily abandon installed heating systems, replace heating systems or other
14 appliances, remodel their homes, or otherwise assume the financial burden to make
15 significant changes in their lifestyle. While I agree that customers will eventually
16 respond to significant changes in utility prices, most customers, particularly those who
17 are low or moderate income, cannot make such immediate or expensive investments or
18 changes. For many low-income customers, their energy usage is not a discretionary
19 portion of their household income. Their lack of discretionary income means that they

⁵⁵ PSE Response to Public Counsel Data Request No. 56, [“No alternatives to PSE’s proposals were pursued.”]. See also PSE Response to Public Counsel Data Request No. 78 [PSE does not know how many “summer” homes it serves], PSE Response to Public Counsel Data Request No. 80 [PSE has not investigated a seasonal use customer charge or a seasonal use rate schedule.].

⁵⁶ PSE Response to Public Counsel Data Request No. 58.

1 are “stuck” with the housing condition, heating system, and appliances that are already
2 present in their dwellings. This is, of course, only heightened when the family is renting
3 a home or apartment where the landlord is in charge of the heating systems and most of
4 the appliances. In rental units, it is the customer or renter who sees the rate design and
5 not the landlord.

6 By contrast, the utility has the expertise to manage its investments and purchases
7 of electric or natural gas supply to ameliorate this risk. A utility can adopt policies that
8 impact its ability to recover the costs of investments to serve new customers (particularly
9 with the costs imposed on new customers for line extensions and new mains). A utility
10 can, and PSE does, employ sophisticated means to manage its natural gas and electricity
11 supply portfolio, such as investments in derivatives and other financial instruments to
12 shift the risk of weather and load growth, as well as to propose and be assured of full cost
13 recovery for any energy efficiency and conservation programs. PSE should not be
14 allowed to shift significant costs and risks to residential customers with this proposed
15 increase in monthly charges.

16 **Q: Ultimately, how can PSE respond to any development that threatens its ability to**
17 **earn a fair rate of return?**

18 A: PSE controls the timing of its base rate cases, at which time the actual sales figures are
19 investigated and approved as the basis for its rates and rate of return.

20 **Q: Since PSE’s customer base is growing, does PSE bear any long term or significant**
21 **risks with respect to its opportunity to earn a fair rate of return?**

1 A: PSE's argument that fixed customer charges are needed to protect its revenue stream do
2 not appear reasonable in light of the other statements of PSE witnesses in this case that its
3 customer base is growing and new investments are being made to respond to this growing
4 customer base. For example, Ms. McLain testifies that PSE has seen significant growth
5 in its customer base. From 2003 through 2006, PSE's electric customers increased by 6.1
6 percent and PSE's natural gas customers increased by 11 percent, far in excess of the
7 national growth rate of electric and natural gas utilities.⁵⁷

8 **Q: Do you agree with PSE's interpretation of the monthly customer charge rates**
9 **charged by other Washington gas utilities or other gas utilities identified in Mr.**
10 **Hoff's and Ms. Phelps' testimony and exhibits?**

11 A: No. Mr. Hoff presents a chart that lists the fixed monthly charge of Washington electric
12 utilities, Exhibit No. ____ (DWH-6). He claims that this list shows that most Washington
13 electric utilities charge a higher monthly charge than the \$6.02 charge imposed by PSE.
14 However, all of the investor owned utilities charge a lower monthly charge. Those
15 utilities that impose a higher electric monthly charge are smaller publicly owned utilities
16 whose rate structure and rate design is very likely a reflection of their size and other
17 factors not applicable to PSE. According to this chart, PacifiCorp charges \$5.25 per
18 month, Avista Utilities charges \$5.50 per month and Tacoma Power, a utility near to
19 PSE's service territory, charges \$5.50 per month. Seattle City Light charges \$2.92 per
20 month. Clearly, the bulk of the electric customers in Washington experience lower
21

⁵⁷ Exhibit No. ____ (SML-1CT) p. 6.

1 monthly charges than those already charged by PSE to its residential customers.

2 Ms. Phelps includes a comparison chart of gas utility fixed monthly charges in
3 Exhibit No. ____ (JKP-11). Almost no gas utilities charge a monthly fee that even
4 approaches the \$18.00 per month fee proposed by PSE; 72 percent of the gas utilities
5 charge a monthly fee of \$10.00 or less and 52 percent of the listed utilities charge a
6 monthly fee of \$9.00 or less. Clearly, there is no basis for looking to this chart of gas
7 utilities outside of Washington to justify Mr. Phelps' proposal to charge \$18.00 per
8 month to residential customers for essential gas service. Furthermore, Avista Utilities in
9 Washington charges only \$5.50 per month and NW Natural charges \$5.00 per month. It
10 is highly unlikely that the cost to serve between these other Washington gas utilities
11 could be so dramatically different so as to justify the disparity in monthly charges as
12 proposed by PSE.

13 **VI. PSE's LOW-INCOME PROGRAMS: DESIGN AND FUNDING**

14 **Q: Please summarize PSE's proposals with respect to the funding of its low-income**
15 **programs in this rate case.**

16 A: Mr. Eric Markell's testimony proposes to increase the ratepayer funding for PSE's low-
17 income bill assistance program—HELP—in an amount equal to the percentage of the rate
18 increase for the residential electric and natural gas class that is approved by the
19 Commission. PSE calculated this increased HELP funding as \$791,584 based on its
20 original filing. This amount would change to reflect the actual rate increase approved by

1 the Commission under PSE's approach.⁵⁸ According to Mr. Hoff, the current budget
2 cap for the electric HELP program is of \$6,717,000.⁵⁹ With regard to the HELP
3 assistance for gas customers, PSE is proposing an additional amount of increase that will
4 only be applicable if the Company's proposals for an increased fixed monthly customer
5 charge up to \$18.00 per month is approved. While no specific level of funding increase
6 is identified, Mr. Markell states that the current annual cap of \$3,536,000 would be
7 increased to reflect not only the overall rate increase, but be based on an analysis of the
8 typical bill impact on low-income customers resulting from the increased basic monthly
9 charge.⁶⁰

10 **Q: Did PSE propose any change in the funding level for low-income energy efficiency**
11 **or conservation programs?**

12 A: No.

13 **Q: First, do you agree that PSE's recommended approach to the funding level for low-**
14 **income programs should be limited to a percentage increase in rates for the**
15 **residential class?**

16 A: I understand that this approach has some precedent in prior negotiated settlements of
17 previous base rate cases and I acknowledge that such an approach at least recognizes the
18 ongoing needs of low-income customers in an era of rising energy prices. However, such

⁵⁸ PSE Response to Public Counsel Data Request No. 61.

⁵⁹ PSE Response to Public Counsel Data Request No. 64 ["The current cap was established in WUTC Docket No. UE-071769 and was based on a negotiated settlement approved by the Commission in WUTC Docket Nos. UE-060266 and UG-060267. The initial annual cap was established by Commission approval in WUTC Docket Nos. UE-011570 and UG-011571. This initial annual cap was also the result of a negotiated settlement."]

⁶⁰ Testimony of Eric Markell, pages 36-37, Exhibit No. ____ (EMM-1CT).

1 an approach does not reflect the basic needs for low-income residential customers and
2 does not reflect the growing inability to pay the annual electric and gas utility bill for
3 such households. A limitation of any increased bill assistance to the percentage rate
4 increase of the residential class does nothing more than allow those who currently receive
5 assistance to “run in place.” I will discuss the needs of PSE’s low-income customers and
6 recommend additional funding beyond that proposed by PSE in this case.

7 **Q: Second, do you agree that PSE’s proposal to increase HELP funding for low-income**
8 **gas customers based on the results of a “typical bill analysis” if the Company’s rate**
9 **design proposal to increase the basic monthly charge to \$18.00 should be accepted?**

10 A: No, I do not recommend that any increase in the HELP program funding for gas
11 customers should depend on PSE’s analysis of typical bill impacts that result from its
12 attempt to shift costs from volumetric rates to fixed monthly charges. As my testimony
13 will demonstrate, only a small proportion of low-income customers actually participate in
14 HELP. The impact of any rate design change on low-income customers cannot be fairly
15 determined by simply looking at the small proportion of low-income customers that
16 participate in the HELP program. Rather, my overall recommendation is to focus on the
17 need to establish a measured increase to the level of participation in HELP for both gas
18 and electric customers.

19 **Q: Please describe the current HELP program and its participation rates.**

20 A: PSE’s HELP program served approximately 18,000 low-income residential customers in
21 2007 (approximately 14,000 electric customers and 6,000 gas customers, but note that
22 approximately 2,300 HELP customers are dual fuel PSE customers). The average 2007

1 electric benefit was \$373 and the average gas benefit was \$344. The total dollar amount
2 of HELP electric bill payment assistance was \$5.2 million. The total dollar amount of
3 HELP gas bill payment assistance was \$2.2 million, resulting in total HELP benefits
4 equal to \$7,501,705.⁶¹ In addition, administrative and enrollment costs were \$1.8
5 million. The costs of this program are recovered from all customers through PSE's
6 electric and gas tariff rider Schedules 129. PSE customers are qualified for HELP based
7 on the same household income guidelines that are used by LIHEAP, which in
8 Washington is 50 percent of the area's median household income, with an upper bound
9 cap of 150 percent of federal poverty guidelines and a lower bound of 125 percent of
10 federal poverty guidelines, depending on the local area's median household income. As a
11 practical matter, this means that the eligibility criterion for LIHEAP and HELP is 125
12 percent of the federal poverty guidelines in PSE's service territory. I should point out
13 that Washington's LIHEAP criteria are below the maximum allowed by federal law
14 which is 150 percent of federal poverty guidelines.

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

⁶¹ PSE Response to Public Counsel Data Request No. 689, Attachment A.

1 of a lump sum benefit on the customer's bill, similar to the manner in which the LIHEAP
2 benefit is applied to the customer's bill.

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

6 A: PSE does not know what percentage of low-income customers are served by HELP.

7 Furthermore, PSE has not done any evaluation of the effectiveness of the HELP program
8 in terms of impact on affordability and retention of service. PSE's reports on this
9 program do not reflect any analysis of HELP's impact on regular bill payment, keeping
10 payment plans, or avoiding disconnection of service.⁶² Nor has PSE done an analysis of
11 HELP on PSE's customer collection costs, including bad debt expense.⁶³

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

13 A: According to a recent report on Washington state energy needs, done by Apprise, Inc. for
14 the Washington Office of Community Trade and Economic Development,⁶⁴ 14 percent
15 of all households in Washington have a total household income at or below 125 percent
16 of the federal poverty level and an additional 4 percent of all households have an income
17 between 125 percent and 150 percent of the federal poverty level. Of these households,
18 72 percent of the households in Washington with income at or less than 125 percent of
19

⁶² PSE Response to Public Counsel Data Request No. 472.

⁶³ PSE Response to Public Counsel Data Requests No. 471.

⁶⁴ Washington State Energy Needs: Final Report (December 2007). Available at www.appriseinc.org.

1 the federal poverty level have an energy burden that is greater than 5 percent of their
2 annual household income and 46 percent of these households have an energy burden
3 greater than 10 percent of income. With regard to PSE’s low-income households, the
4 report estimated that 73 percent had a household energy burden in excess of 5 percent
5 and 49 percent had an energy burden at 10 percent or more. Such households would have
6 to allocate 10 percent of their household income to pay for vital and essential electric and
7 gas service.

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

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

1 eligible electric customers based on the higher level of participation of PSE's electric
2 customers in HELP.

3 **Q: Are your concerns about the needs of PSE's low-income customers exacerbated by**
4 **the current economic recession?**

5 A: Of course. The credit and mortgage crisis and the crushing burden of just paying for
6 gasoline and food is beginning to ripple through the economy. Job losses or lack of
7 growth in employment, increased applications for Food Stamps and other financial
8 assistance programs are indicators of the impact these economic trends are likely to have
9 on the ability of PSE's low-income customers to pay for and retain essential electricity
10 and natural gas service. For example, the Washington Economic and Revenue Forecast
11 Council's February 2008 Forecast documented the decrease in housing starts and rising
12 unemployment rate.⁶⁵

13 **Q: What level of funding do you recommend for HELP in this case?**

14 A: PSE's proposal to increase HELP funding is a step in the right direction. At a minimum,
15 I recommend that HELP funding be increased by the percentage rate increase approved
16 by the Commission for the residential class. However, this is an insufficient method to
17 establish the funding level for this program. HELP funding should also be increased
18 beyond that level to begin to assure a steady progress in reaching out and enrolling
19

⁶⁵ This report is available at the ERF website: www.erfc.wa.gov.

1 qualified low-income customers into this program. I recommend that the Commission
2 should approve an approach that focuses on increasing the enrollment of qualified HELP
3 customers over a several year period. PSE can recover the actual costs associated with
4 any level of HELP enrollment and reset the ratepayer recovery mechanism to reflect
5 actual costs. For this base rate case I recommend that PSE be authorized to file for a
6 change in the Schedule 129 HELP cost recovery surcharge no more than once per year
7 and that the Commission authorize cost recovery for a total increase in customer
8 participation of approximately 5,000 new HELP customers over the 2007 program
9 performance of 18,087. Furthermore, I recommend that PSE establish a priority to
10 increase its enrollment of electric low-income customers. Based on the current average
11 electric benefit of \$373, 4,500 additional electric customers' HELP benefits would cost
12 approximately \$1.68 million. Based on the average gas benefit of \$344, HELP benefits
13 for an additional 500 gas customers would cost approximately \$173,000. My
14 recommendation is intended to focus primarily on low-income electric customers since
15 they have the greatest energy burden and there are fewer low-income gas customers
16 served by PSE.

17 In conclusion, the total HELP budget should be increased to reflect (1) the
18 percentage rate increase approved by the Commission; (2) these new enrollment
19 objectives; and (3) the proportional administrative and program costs associated with the
20 implementation of this increased enrollment.

21 **Q: Do you have any concerns about the manner in which the HELP bill assistance is**
22 **provided to PSE's customers in the form of a lump sum benefit?**

1 A: Yes. I have two concerns. First, recent national studies of the effectiveness of bill
2 payment assistance programs and my own experience with the design and funding of
3 such programs suggest that providing low-income customers with a significant lump sum
4 benefit once per year may not be as effective as providing bill assistance in an equal
5 amount every month. A recent national study that evaluated a number of ratepayer
6 funded low-income bill assistance programs found that programs that equalized monthly
7 benefits and sought equal monthly payments from participating customers had the most
8 likelihood of resulting in more regular or frequent payments of the monthly utility bill.⁶⁶

9 Second, the application of a lump sum benefit to a low-income customer's bill
10 carries with it the risk that such payments will be allocated to prior balances due and thus
11 will not serve the intent of the program to provide ongoing bill assistance for the 12
12 months after the benefit is calculated. The purpose of the HELP program should not be to
13 retire arrears balances incurred by the customer, but to assist the customer in paying
14 current bills for the program year.

15 **Q: In light of these concerns, what do you recommend?**

16 A: I recommend that PSE discuss this issue and the potential for applying the HELP benefit
17 in equal installments on the monthly bill with representatives of clients and the agencies
18 who currently qualify customers for this program in the HELP Advisory Committee. The

⁶⁶ Apprise and Fisher, Sheehan, Colton, Ratepayer Funded Low-income Energy Programs: Performance and Possibilities (July 2007). Available at [http://www.appriseinc.org/reports/NLIEC %20Multi-Sponsor %20Study.pdf](http://www.appriseinc.org/reports/NLIEC%20Multi-Sponsor%20Study.pdf) See discussion at pages 96-98.

1 results of these discussions should then be reported to the Commission with any
2 recommendations that result from these consultations.

3 **Q: In light of the lack of information on the impact of the HELP program on the ability**
4 **of customers to make regular bill payments or PSE's billing and collection**
5 **programs, do you have a recommendation?**

6 A: Yes. I recommend that the Commission require PSE to evaluate the impact of the HELP
7 program on the ability of customers to maintain and obtain essential electric and gas
8 services. All parties will benefit from understanding the impact of HELP on customer
9 bill payment patterns, participation in payment plans, impact on PSE's collection
10 activities and expenses, including disconnection of service and bad debt expense.

11 Furthermore, this evaluation should document in more detail the needs of PSE's
12 low-income customers and discuss the various means by which those needs can be more
13 adequately met. Again, I recommend that PSE consult with the HELP Advisory
14 Committee in carrying out this evaluation. The resulting evaluation should be submitted
15 to the Commission for review and comment by interested persons within one year after
16 the Commission's order in this proceeding.

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

19 A: PSE provides funding for cost-effective home weatherization measures for low-income
20 gas and electric heat customers. Funds are used for single-family, multifamily, and
21 mobile home residences. The participants in this program are referred by the low-income
22 and crisis service agencies and qualification is done by the same agencies that operate the

1 U.S. Department of Energy Weatherization Program. PSE recently has agreed to
2 increase the amount paid for the various measures that are installed under these programs,
3 a welcome development since the reimbursement rates for these measures had not
4 changed in many years and the older rates do not reflect the increased cost of materials,
5 labor and transportation for these programs. However, the overall budget has not
6 increased to reflect these increased payments for the weatherization measures.

7 Prior to 2007, PSE spent an average of \$2.2 million for this program as part of a
8 large and very robust energy efficiency and conservation budget.⁶⁷ In general, PSE's
9 energy efficiency program funding has increased significantly for residential and
10 commercial customers, but the comparable level of increase has not been implemented
11 for the low-income programs. PSE has increased energy efficiency program funding
12 from \$18.7 million in 2003 to \$25.4 million in 2006, an 89 percent increase. However,
13 the funding for the low-income program essentially remained level during this same
14 period.

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

16 A: No. The flat funding for this program does not reflect the underlying increases in prices
17 charged for electricity and gas service by PSE since 2003 with the constant filing of base
18 rate and fuel price increases. Nor does this level of funding reflect the impact of PSE's
19 intent to provide additional financial support for the various measures allowed to be paid
20 for by this program. Finally, this flat level of funding does not reflect the impact of what

⁶⁷ 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 is surely to be higher prices to implement Washington’s green house gas and carbon
2 legislation and the growing indicators of an economic recession. All of these factors will
3 put significant pressures on low-income families to afford the basic necessities of
4 electricity and natural gas service and suggest that PSE should increase the funding for
5 low-income weatherization programs.

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

8 A: I recommend that PSE increase funding for the low-income energy efficiency program.
9 My recommendation is for a minimum increase of \$1.5 million to the program’s annual
10 average budget from the 2008-2009 biennium. PSE should work with the provider
11 agencies to develop a plan to implement this increased level of funding over a 12-24
12 month period.

13 **VII. PSE’S HANDLING OF “ZERO” METER READS AND BACK BILLING**
14 **TO AFFECTED CUSTOMERS**

15
16 **Q: Have you been made aware of an increase in PSE’s meter reading failures and the**
17 **issuance of large back bills to customers?**

18 A: Yes. I have reviewed materials provided by PSE in response to data requests submitted
19 by the Commission Staff. In addition, the Public Counsel has provided me with recent
20 news items⁶⁸ and customer complaints⁶⁹ filed with the Public Counsel concerning
21

⁶⁸ See, e.g. “Couple back-billed \$1,900 by Puget Sound Energy,” *King 5 News*, (April 8, 2008).

⁶⁹ One customer contacted the Public Counsel and stated that their meter had been inoperative or malfunctioning for 16 months, resulting in a back bill of \$1,500.

1 customers who have been issued large back bills as a result of PSE’s inability to obtain an
2 actual meter reading, particularly for natural gas service. In many of these situations, the
3 meter is reporting a “zero” read, primarily due to the failure of PSE’s automatic meter
4 reading equipment installed on the meter.

5 The extent of this back billing activity is significant. PSE conducted field
6 inspections of 1,842 gas and 1,017 electric “zero consumption” meters in 2007, resulting
7 in replacement of the meter or the meter reading module.⁷⁰ PSE issued 3,506 bills to
8 correct meter errors from October 2006 through September 2007.⁷¹ Furthermore, PSE
9 has stated that it has offered some affected customers “settlements for less than the full
10 amount of a back billing resulting from a meter error.” PSE issued over \$5 million in
11 settlements for less than the full amount in the period October 2006 through September
12 2007.⁷²

13 **Q: Please describe your concern about this pattern and your recommendation for the**
14 **appropriate response by the Commission?**

15 A: I am concerned about the scope and scale of this problem. Furthermore, I am very
16 concerned that the proper incentive does not exist to assure that PSE does preventive
17 maintenance and maintains its meters and meter reading modules in working order. PSE
18 is apparently back billing customers for substantial amounts and, in some cases, offering
19 to settle the amount owed. This has the potential for discriminatory treatment of
20

⁷⁰ PSE Response to WUTC Staff Data Request No. 158.

⁷¹ PSE Response to WUTC Staff Data Request No. 53, Attachment A.

⁷² PSE Response to WUTC Staff Data Request No. 161.

1 customers. It is unclear in Washington whether the rules prohibit a utility from back
2 billing a customer for a meter reading failure that is the responsibility of the utility.
3 Under Maine's regulations, for example, a customer cannot be back billed for more than
4 12 month's usage unless the failure to issue an accurate bill was the fault of the customer
5 (e.g., theft of service, tampering, etc.). It is PSE that has the obligation and duty to
6 maintain and assure accurate meters and meter reading. Customers should not bear this
7 risk or suffer unreasonably high back bills when PSE has this responsibility.

8 I recommend that the Commission require its Staff to conduct a docketed
9 investigation in cooperation with the Public Counsel and other interested parties and issue
10 a report on its findings and recommendations as soon as possible. Such a report may then
11 need to be pursued in a rulemaking, a complaint proceeding, or other process to establish
12 specific remedies for affected customers.

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

14 A: Yes.