

**Exh. CRM-10
Dockets UE-220066, UG-220067,
UG-210918
Witness: CHRIS R. MCGUIRE**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**DOCKETS UE-220066, UG-220067,
UG-210918 (consolidated)**

In the Matter of the Petition of

PUGET SOUND ENERGY

**For an Order Authorizing Deferred
Accounting Treatment for Puget Sound
Energy's Share of Costs Associated with
the Tacoma LNG Facility**

EXHIBIT TO TESTIMONY OF

CHRIS R. MCGUIRE

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

PSE Response to UTC Staff Data Request No. 230

July 28, 2022

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Dockets UE-220066 & UG-220067
Puget Sound Energy
2022 General Rate Case**

WUTC STAFF DATA REQUEST NO. 230:

REQUESTED BY: Chris McGuire

Re: O&M (pro forma) – RY1

Referring to the PSE workpaper titled “NEW-PSE-WP-SEF-6E-11G-OM-22GRC-01-2022” on the tab titled “Cleaning,” PSE’s O&M budget for 2023 includes increases in expense for the following items:

\$25.25 million for “PSE 2030 Incremental OpEx”
\$7.45 million for “Management reserve”
\$9.61 million for “Opex related to CapEx”

Similar amounts also are included as part of the Company’s increase in budget for “Corporate” labor from \$47.9 million in 2022 to \$93.0 million in 2023 in the PSE workpaper titled “NEW-PSE-WP-KKH-Opex-2020-Actual-vs-2023-Plan” (see the tab titled “Summary Pivot,” columns F and G, under the category “Corporate” and subcategory “Corporate”).

For the budget increase of \$7.45 million for “Management reserve,” please:

- a. Provide reference to PSE testimony where PSE explains the \$7.45 million increase in expense and justifies its inclusion in rates.
- b. Provide the workpapers that support the calculation of the \$7.45 million in incremental O&M for “Management reserve.”
- c. Provide all materials provided to PSE’s Board in support of including \$7.45 million for “Management reserve” in PSE’s 2023 budget.
- d. Provide documentation that the Board considered and approved a budget increase of \$7.45 million for “Management reserve.”

Response:

- a. Puget Sound Energy (“PSE”) does not specifically address the \$7.45 million for “management reserve” directly in testimony, rather it is included in the pro forma O&M projections presented in the Prefiled Direct Testimony of Joshua A. Kensok, Exh. JAK-1T.

The management reserve is a risk management planning tool that PSE has used historically, and is common practice in the budget management function, similar to project level contingency, but at the enterprise portfolio level. A management reserve or corporate contingency is an unallocated component of the budget designed to fund unforeseen major events that could not have been anticipated at the time the plan was developed and approved by the PSE Board of Directors. An example would be the passage of a major piece of legislation, like the Climate Commitment Act,¹ which requires an immediate investment in PSE's customer billing system, or an unexpected failure in a major component of one of PSE's generation fleet. Having a small management reserve allows PSE's management to address unforeseen issues without needing to deprioritize other investments that were approved in the budget and that are required to deliver safe and reliable service to customers.

Unlike project level contingencies, which can range from 5-15% of the project budget or greater based on project management best practices, the management reserve included in PSE's Board approved budget is only 1% of the total O&M in 2023, 1.5% in 2024, and 2% in 2025. Additionally, as discussed in PSE's Response to Public Counsel Data Request No. 253, PSE also maintains a management reserve on its capital budget utilizing the same percentage calculations. These targets were discussed and agreed upon with PSE's Board in the development and approval of the five-year business plan which is the basis for the multiyear rate plan ("MYRP"), and their inclusion in the budget addresses the uncertainty that PSE will face in setting portfolio targets multiple years into the future, based only on the knowledge that exists today. In the unlikely event that the management reserve is not required, the funds will not be spent and any over-earnings that this might create would be addressed in the earnings sharing mechanism discussed in the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1T. Because the allocation of the management reserve for capital is unknown today, no assumptions are included in PSE's MYRP for where or when the capital expense will close into service, and therefore the management reserve for capital is not included in the revenue requirement included in this filing. The O&M management reserve is included in the MYRP.

- b. Attached as Attachment A to PSE's Response to WUTC Staff Data Request No. 230, please find the work papers supporting the management reserve discussed in part a. above. The total O&M budget reflected on line 4 of Attachment A are equal to the total O&M budget shown on page 5 of the Fourth Exhibit to the Prefiled Direct Testimony of Joshua A. Kensok, Exh. JAK-5.
- c. Attached as Attachment B to PSE's Response to WUTC Staff Data Request No. 230, please find the final Board approved O&M budget from the approval of the

¹ Senate Bill 5126 (2021-22).

2022-2026 business plan on November 4, 2021. The O&M management reserve is reflected on line 16 of page 1 of Attachment B.

- d. Part c. reflects the materials provided to the Board, which were officially approved on November 4, 2021.

ATTACHMENT A to PSE's Response to WUTC Staff Data Request No. 230

ATTACHMENT B to PSE's Response to WUTC Staff Data Request No. 230

2022-2026 OpEx Management Reserve

	(A)	(B)	(C)	(D)	(E)	(F)
Line	(\$ in millions)	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
1	2022 approved OpEx (allocated)	667.0	744.7	763.4	789.5	808.0
2	Management reserve %	0.0%	1.0%	1.5%	2.0%	2.0%
3	Management reserve \$	-	7.4	11.5	15.8	16.2
4	2022 approved OpEx total	667.0	752.2	774.8	805.3	824.2

ATTACHMENT B to PSE's Response to WUTC Staff Data Request No. 230

Business Planning Committee



October 14, 2021

2022 draft opex reflects a 5-year CAGR of 5.4% compared to 3.2% from the prior approved plan, largely driven by 2022 mitigation, PSE 2030 investments, and the creation of a management reserve

Line	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	(\$ in millions)							
	2021	2022	2023	2024	2025	2026	5-Yr Total	
1	2021 Board Approved Opex	635.1	651.6	672.6	688.9	719.9	3,368.0	
2	Colstrip	9.0	14.5	14.4	14.5	13.2		
3	Low Income (has revenue offset)		1.1	1.4	1.7	1.8		
4	Electric Vehicle Program (has revenue offset)		0.2	0.1	0.5	0.2		
5	WUTC Fees (has revenue offset)		(0.3)	0.1	0.2	0.4		
6	2021 opex adjusted for Colstrip and pass-throughs	644.1	667.0	688.5	705.8	735.5	3,440.9	
7	PSE 2030 incremental opex		2.4	20.6	20.1	15.2	58.3	
8	PSE labor (confidential)		8.0	13.0	13.1	13.1	47.2	
9	Lease portfolio changes		3.6	5.9	6.2	6.7	22.4	
10	Opex related to capex CSA		-	9.6	9.6	11.1	30.3	
11	Customer payment processing fees		2.7	2.9	3.1	3.2	11.9	
12	Insurance premiums		2.2	1.9	1.9	1.9	7.8	
13	MYRP staffing augmentation		-	4.1	4.3	4.4	12.9	
14	Energy supply revised estimates		5.1	-	-	-	5.1	
15	GRC legal fees		0.8	-	-	-	0.8	
16	Management reserve		-	7.4	11.5	15.8	34.7	
17	Generation amortization		(2.8)	(1.8)	(0.7)	(1.6)	(6.9)	
18	Mitigation strategy		(22.0)	-	-	-	(22.0)	
19	Sub-total 2022 opex changes		0.0	63.7	69.0	69.8	202.5	
20	2022 draft opex	644.1	667.0	752.2	774.8	805.3	3,823.5	

- **Opex associated with:**
 - ✓ Acquiring distributed energy resources in alignment with the CEIP
 - ✓ Programs to support distributed energy resources
 - ✓ Customer outreach and education
 - ✓ CEIP administrative costs

- **Opex associated with:**
 - ✓ Retaining Bellevue EST building
 - ✓ Kent office (new)
 - ✓ Puyallup office (new)

- **Management reserve as % of total opex**
 - ✓ 2023: 1.0% of total opex
 - ✓ 2024: 1.5% of total opex
 - ✓ 2025: 2.0% of total opex

Opex by organization reflects continued mitigation through 2022 with increases for PSE 2030 and other investments in 2023-2026

Line	(\$ in millions)	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
		2021 Plan	2022 Draft	2023 Draft	2024 Draft	2025 Draft	2026 Draft	2022-2026	2022-2026 CAGR	
1	President & CEO	1.9	2.4	2.5	2.6	2.6	2.7	12.8	2.4%	
2	Operations	203.8	204.9	215.8	221.5	227.3	233.4	1,103.0	3.3%	
3	Energy Supply	150.6	157.5	165.2	168.3	170.1	172.8	834.1	2.3%	
4	Regulatory & Strategy	17.0	17.2	20.5	21.0	21.5	22.1	102.3	6.4%	
5	Information Technology	78.9	78.7	85.5	87.5	89.5	91.6	432.9	3.9%	
6	Corp Shared Services	30.7	36.5	37.1	38.1	39.7	40.8	192.2	2.8%	
7	Customer Operations	32.5	32.1	33.4	34.2	35.1	36.1	170.9	3.0%	
8	Human Resources	3.3	3.4	3.9	4.0	4.1	4.2	19.4	5.7%	
9	Finance	16.7	17.0	17.7	18.2	18.7	19.3	90.8	3.2%	
10	Legal	20.2	19.1	20.2	20.8	21.3	22.8	104.2	4.6%	
11	Sub-total business direct costs	555.7	568.9	601.8	616.1	630.0	645.8	3,062.6	3.2%	
12	APUA	22.9	22.9	16.9	17.4	18.0	18.5	93.7	-5.2%	
13	Damage & liability claims	2.0	2.0	2.0	2.0	2.0	2.0	10.0	0.0%	
14	Generation amortization	8.4	7.2	8.8	8.9	7.9	7.9	40.8	2.6%	
15	Insurance premiums	10.6	12.8	12.8	12.8	12.8	12.8	64.2	0.0%	
16	Payment processing fees	6.4	10.1	10.3	10.5	10.7	11.1	52.7	2.3%	
17	Storm	10.6	10.6	10.6	10.6	10.6	10.6	53.0	0.0%	
18	Construction support	(154.2)	(168.3)	(175.1)	(180.6)	(186.6)	(192.4)	(903.0)	3.4%	
19	Overheads	126.2	143.4	149.1	151.6	159.0	164.7	767.7	3.5%	
20	Sub-total corporate items	32.9	40.7	35.5	33.2	34.5	35.2	179.0	-3.5%	
21	PSE 2030 incremental opex		0.2	25.3	28.9	35.7	35.8	125.8		
22	Opex related to capex CSA			9.6	9.6	11.1	12.6	43.0		
23	PSE labor (confidential)			11.4	11.4	11.4	11.4	45.7		
24	MYRP staff augmentation			4.1	4.3	4.4	4.6	17.4		
25	Management reserve			7.4	11.5	15.8	16.2	50.8		
26	Sub-total unallocated opex in plan		0.2	57.9	65.6	78.4	80.5	282.7		
27	Low income program	26.1	26.5	26.7	26.9	26.9	27.0	134.1	0.5%	
28	WUTC fees	7.1	7.1	7.7	7.9	8.0	8.1	38.8	3.5%	
29	Green power program	1.8	1.8	1.8	1.8	1.8	1.8	8.8	0.0%	
30	GAAP pension accounting	11.0	10.9	10.3	12.6	15.1	15.1	64.0	8.5%	
31	Electric vehicle program	2.4	2.1	1.8	1.7	1.4	1.3	8.3	-10.8%	
32	Other pass-throughs	2.6	2.7	2.7	2.7	2.7	2.7	13.5	0.0%	
33	Sub-total pass-through items	51.0	51.1	50.9	53.6	56.0	56.0	267.6	2.4%	
34	Puget LNG	4.5	6.2	6.2	6.3	6.4	6.5	31.6		
35	2022 draft opex	\$644.1	\$667.0	\$752.2	\$774.8	\$805.3	\$824.2	\$3,823.5	5.4%	