

**BEFORE THE WASHINGTON
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKETS UE-240004 & UG-240005 (*Consolidated*)

**GREG R. MEYER
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT**

EXHIBIT GRM-9

PSE's Response to Staff Data Request No. 105, Attachment A

August 6, 2024

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Dockets UE-240004 & UG-240005
Puget Sound Energy
2024 General Rate Case**

WUTC STAFF DATA REQUEST NO. 105:

REQUESTED BY: Chris McGuire

Kensok testifies that PSE now uses a centralized method for cost escalation whereby all PSE employees who participate in the financial planning process forecast expenses in real dollars which PSE then converts to nominal dollars (i.e., adjusts for inflation) using escalation factors. Kensok also testifies that the escalation factors PSE used to produce the inflation-adjusted forecasts that the Company included in this rate case were provided by the external third-party PEG. Kensok Exh. JAK-1CT, 12:17–13:4.

Please provide workpapers showing PSE’s conversion of its forecasted O&M expenses from real to nominal dollars using the escalation factors provided by PEG.

Response:

Attached as Attachment A to Puget Sound Energy’s (“PSE”) Response to WUTC Staff Data Request No. 105 please find an MS Excel spreadsheet containing the requested information. The tab labelled Cost Element View includes the conversion of PSE’s forecasted O&M expenses from real to nominal dollars using the escalation factors provided by PEG.

**ATTACHMENT A to PSE's Response to
WUTC Staff Data Request No. 105**

<u>Line</u>	(A)	(B)	(C)	(D)	<u>2024-2026</u> <u>CAGR</u>
		<u>2024 Draft</u>	<u>2025 Draft</u>	<u>2026 Draft</u>	
1	PEG Inflation Factor (Compounding)	0.0000%	107.8329%	111.3395%	
2	Labor after PEG Inflation	249.0	268.5	277.2	2.7%
3	Outside Services	186.5	189.4	192.9	0.8%
4	Software & Hardware	32.9	33.4	34.0	0.8%
5	Rent/Lease	22.7	23.1	23.5	0.8%
6	Phones & Office Supplies	22.3	22.7	22.7	0.4%
7	Materials	18.4	18.7	18.7	0.4%
8	Regulatory Fees & Permits	6.7	6.8	6.8	0.4%
9	Employee Expenses	6.4	6.5	6.5	0.4%
10	Memberships	3.2	3.2	3.2	0.4%
11	Advertising	0.7	0.7	0.7	0.4%
12	Other Cost Elements	0.3	0.3	0.3	0.4%
13	Subtotal non-labor direct costs	300.0	304.7	309.2	
14	PEG Inflation Factor (Compounding)	0.0000%	101.5670%	103.418%	
15	Subtotal operating units direct costs	549.0	573.2	586.4	1.7%

Summary of PEG Escalators

O&M Prices				Capex Price																
Wage Rates		M&S Price		Construction Cost Indexes												General		Intangible		
				Steam Production		Other Power		Hydraulic		Transmission		Distribution		Gas Distribution						
Forecasted Annual (Logarithmic) Growth Rate	Inflation Factor	Forecasted Annual (Logarithmic) Growth Rate	Inflation Factor	Forecasted Annual (Logarithmic) Growth Rate	Inflation Factor	Forecasted Annual (Logarithmic) Growth Rate	Inflation Factor	Forecasted Annual (Logarithmic) Growth Rate	Inflation Factor	Forecasted Annual (Logarithmic) Growth Rate	Inflation Factor	Forecasted Annual (Logarithmic) Growth Rate	Inflation Factor	Forecasted Annual (Logarithmic) Growth Rate	Inflation Factor	Forecasted Annual (Logarithmic) Growth Rate	Inflation Factor	Forecasted Annual (Logarithmic) Growth Rate	Inflation Factor	
2023	1.0000	1.0000		1.0000		1.0000		1.0000		1.0000		1.0000		1.0000		1.0000		1.0000		1.0000
2024	4.15%	1.0423	0.38%	1.0038	0.87%	1.0087	8.42%	1.0879	0.37%	1.0037	2.58%	1.0261	6.10%	1.0629	-0.11%	0.9989	1.00%	1.0101	1.50%	1.0151
2025	3.39%	1.0783	1.18%	1.0157	1.48%	1.0238	8.70%	1.1868	0.31%	1.0068	0.48%	1.0310	2.93%	1.0945	-0.21%	0.9968	1.00%	1.0202	1.50%	1.0305
2026	3.20%	1.1134	1.81%	1.0342	0.48%	1.0287	4.32%	1.2392	0.60%	1.0128	-0.37%	1.0272	1.30%	1.1088	0.15%	0.9983	1.00%	1.0305	1.50%	1.0460
2027	3.23%	1.1499	2.02%	1.0553	0.23%	1.0311	0.70%	1.2479	0.78%	1.0208	-0.66%	1.0204	0.91%	1.1190	0.39%	1.0023	1.00%	1.0408	1.50%	1.0618
2028	3.25%	1.1879	1.66%	1.0730	0.70%	1.0383	-1.13%	1.2339	0.98%	1.0308	-0.08%	1.0196	1.29%	1.1334	0.61%	1.0084	1.00%	1.0513	1.50%	1.0779

Notes

The M&S price index is derived from the S&P materials and service price indexes as well as the wage rate index. The wage rate was included to reflect the provision of services that are provided using non-company labor. This is a work in progress and some change can be expected.

The General Plant escalator is constructed from relevant historical BLS Producer Price Indexes matched to the types of investment anticipated by PSE. This is a work in progress and some change can be expected. The 1% value is reflective of the short and medium term historical trend.

The Intangible Plant escalator is constructed from relevant historical Producer Price Index for Software assigned to the non-franchise portion of intangible plant capex. It is weighted with the non-franchise portion of intangible plant which is assigned zero inflation. The 1.5% value is reflective of the short and medium term historical trend. This is a work in progress and some change can be expected.

The wage rate index is derived from BLS data on average hourly earnings and employment cost index trends in proportion to PSE salaries and wages. This is adjusted by a wage rate differential that accounts for differences in the trend of the Seattle labor market and the US.

The capex indexes for non-general, non-intangible G&E plant are based on S&P forecasts of the relevant type of plant. For gas distribution, such an index does not exist. PEG constructed an index of gas distribution construction cost from the available indexes on types of gas distribution plant using PSE weights.

All of the above work may be subject to smaller revisions as a result of changes to PSE cost data which provide the basis for how individual price indexes are aggregated in to the summary indexes shown above.

Based on recent information, the price index for other power generation is predominately related to gas turbines and little in the way of renewables such as wind and solar. We are exploring upgrades and these values may change that reflect of more modern mix of other power generation assets.

The escalators do not yet reflect price levels that correspond to the first half of 2023 as opposed to all of 2023.