

**BEFORE THE WASHINGTON
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKETS UE-240004 & UG-240005 (Consolidated)

**CROSS-EXAMINATION EXHIBIT OF THERESA R. HUIZI
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT**

EXHIBIT TRH-__X

Rebuttal Testimony of Theresa R. Huizi

October 28, 2024

EXH. TRH-1T
DOCKETS UE-240004/UG-240005 et al.
2024 PSE GENERAL RATE CASE
WITNESS: THERESA R. HUIZI

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

Docket UE-240004
Docket UG-240005
(consolidated)

In the Matter of the Petition of

PUGET SOUND ENERGY

**For an Accounting Order Authorizing
deferred accounting treatment of
purchased power agreement expenses
pursuant to RCW 80.28.410**

Docket UE 230810
(consolidated)

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF

THERESA R. HUIZI

ON BEHALF OF PUGET SOUND ENERGY

SEPTEMBER 18, 2024

PUGET SOUND ENERGY**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
THERESA R. HUIZI****CONTENTS**

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PUGET SOUND ENERGY

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
THERESA R. HUIZI**

LIST OF EXHIBITS

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1

PUGET SOUND ENERGY

2

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
THERESA R. HUIZI**

3

4

I. INTRODUCTION5 **Q.**

**Please state your name, business address, and position with Puget Sound
Energy.**

6

7

A. My name is Theresa R. Huizi, and my business address is 355 110th Avenue NE,
Bellevue, Washington 98004. I am the Director of Financial Planning and
Analysis (“FP&A”) for Puget Sound Energy (“PSE”).

8

9

10 **Q.**

**Have you prepared an exhibit describing your education, relevant
employment experience, and other professional qualifications?**

11

12

A. Yes, I have. It is Exh. TRH-2.

13

Q. What are your duties as Director of FP&A for PSE?

14

A. I oversee corporate financial planning and analysis (“FP&A”), capital allocation
and budgeting, and strategic finance matters. I am further responsible for PSE’s
long-term financial forecasting, including managing the process to develop PSE’s
five-year business plan and gain board of directors’ approval of five-year budgets
for operations and maintenance (“O&M”) expense, capital expenditures, and
capital additions.

15

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19

1 **Q. Did you file direct testimony in this case?**

2 A. No, I did not file prefiled direct testimony. However, I am adopting the Prefiled
3 Direct Testimony of Joshua A. Kensok, Exh. JAK-1CT, and the supporting
4 exhibits, Exh. JAK-2 through JAK-5C, as Mr. Kensok is no longer employed by
5 PSE.

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. My rebuttal testimony responds to the Response Testimony of Commission Staff
8 witness Chris McGuire and the Response Testimony of Public Counsel witness
9 Greg R. Meyer, specifically as they relate to PSE's forecasted O&M expenses.
10 Both McGuire and Meyer question certain aspects of PSE's forecasted O&M
11 expenses as included in the overall revenue requirement numbers. I respond to
12 their testimony, clarify the process used to arrive at PSE's forecasted O&M and,
13 along with PSE witness Jamie L. Martin, I demonstrate that PSE's overall O&M
14 expenses requested in this proceeding for the 2025-2026 rate years are reasonable
15 and necessary to remain a safe and reliable utility for our customers as we
16 navigate the clean energy transition.

17 **II. PSE'S O&M EXPENSES ARE REASONABLE AND NECESSARY FOR**
18 **PSE TO PROVIDE SAFE AND RELIABLE SERVICE AND MOVE FORWARD**
19 **IN THE CLEAN ENERGY TRANSITION**

20 **Q. Several parties recommend cuts to PSE's level of O&M spending.¹ What are**

¹ McGuire, Exh. CRM-1T at 117:8-21; Meyer, Exh. GRM-1CT at 6:10.

1 **the reasons that you will discuss for why the Commission should deny**
2 **parties' proposals?**

3 A. Before I address the myriad of arguments proposed by parties, it is important to
4 bring focus to the discussion. The Commission should maintain its attention on
5 reasonable end results and not over-value the isolated detail provided in parties'
6 testimony. The following facts demonstrate that PSE's overall request for O&M
7 expense is reasonable and that parties' proposals to reduce O&M expenses should
8 be denied:

- 9 • PSE's O&M per customer, even after its requested increases, is in the
10 first quartile of performance when compared with peer utilities.
- 11 • Requested O&M expense falls within reasonable historical trends
12 given PSE's estimated level of work for the rate years.
- 13 • PSE has consistently demonstrated that it can manage its O&M
14 expense, which no party disputes, and should not be penalized for
15 doing so. Nor should the tools it uses for this purpose be
16 inappropriately used to propose O&M expense disallowances.
- 17 • PSE has continually utilized a standardized, effective, and sound
18 process of budgeting its O&M expenses.
- 19 • PSE has demonstrated throughout discovery that by following its
20 process, it has allocated the O&M expense approved by its Board of
21 Directors.
- 22 • PSE has recently made unsustainable cuts in O&M that cannot be
23 maintained.
- 24 • PSE has recently made unsustainable cuts in O&M that cannot be
25 maintained.
- 26 • PSE has recently made unsustainable cuts in O&M that cannot be
27 maintained.
- 28 • PSE has recently made unsustainable cuts in O&M that cannot be
29 maintained.

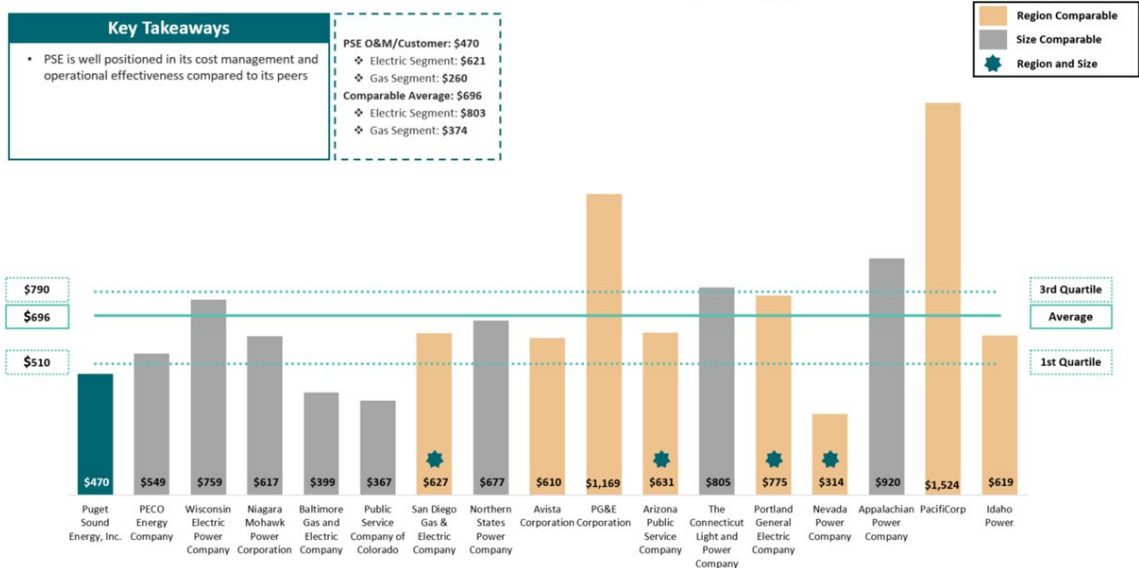
30 **Q. As a threshold matter, is the level of O&M expense which PSE requests in**
31 **this multiyear rate plan reasonable?**

1 A. Yes. As shown in the Prefiled Direct Testimony of Joshua A. Kensok, Exh. JAK-
 2 1CT, PSE has a long history of keeping its O&M expense growth low, with a
 3 compound annual growth rate of less than two percent for the period 2014 to
 4 2023, and a compound annual growth rate in O&M per customer of .67 percent
 5 for the same time period.² Additionally, leveraging public industry data, PSE's
 6 O&M spending compares favorably to other utilities. In fact, as compared to peer
 7 utilities in the same region and of comparable size, PSE's O&M per customer is
 8 among the lowest, putting PSE in the first quartile of performance as shown in
 9 Figure 1 below.

10 **Figure 1 – Comparison of O&M Expense³**

O&M Analysis – Consolidated O&M/Customer

Note: The O&M excludes "Purchased Fuel", "Fuel", and "Purchased Gas" from the Power Production Expense category



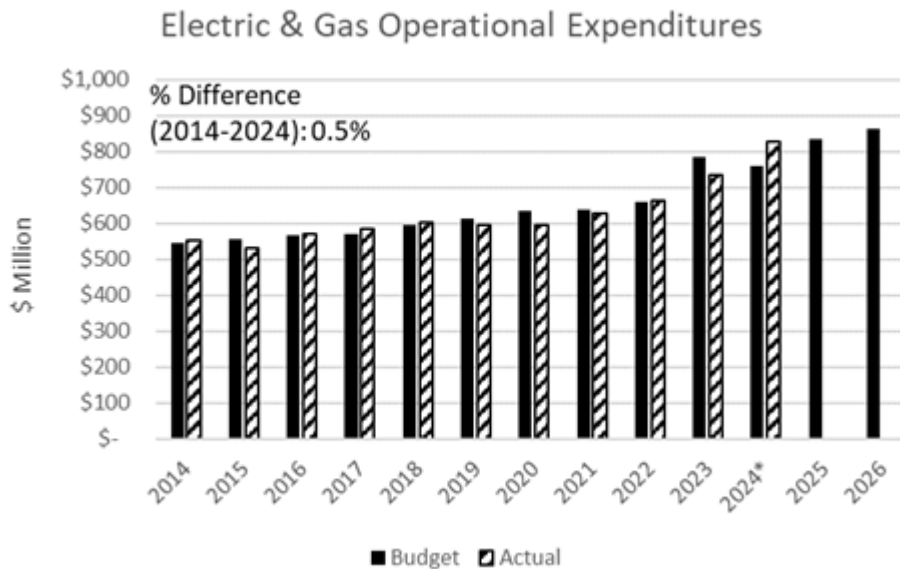
² Kensok, Exh. JAK-1CT at 36:10–27:4.

³ Information prepared by Deloitte at the request of PSE.

1 **Q. How has PSE managed its O&M expenditures in the past?**

2 A. Over the period 2014-2024 (2024 is based on PSE's most recent 7&5 forecast),
 3 PSE has managed its O&M budget to actual spending variance to approximately
 4 0.5 percent as Figure 2 below illustrates. PSE takes great pride in its ability to
 5 tightly manage its finances, including O&M expense, and the systems and
 6 processes it has developed to allow it to do so. PSE's business is very complex
 7 and ever-changing. It requires equally complex, sophisticated, and agile systems
 8 and processes to achieve the results depicted in Figure 2 below.

9 **Figure 2 – Comparison of Budgeted and Actual O&M Expense**



1 **Q. From your experience as Director of FP&A, can you give an overview of the**
2 **current state of PSE’s O&M expenses and budget?**

3 A. Yes. The amount of O&M spending currently in PSE rates is inadequate for PSE
4 to maintain safe and reliable services and meet the clean energy transition
5 requirements mandated by law. Despite the use of cost reduction tactics as
6 described in the Prefiled Direct Testimony of Joshua A. Kensok, Exh. JAK-1CT,
7 pages 38-40, PSE’s actual 2024 O&M spending in total is approximately \$23
8 million more than what was set in rates for 2024.⁴ This additional spending is
9 primarily for non-discretionary operational budget items. In other words, PSE is
10 overspending the amount of O&M expense set in rates because of work that needs
11 to be done—for example, emergency and repair work. PSE’s O&M request for
12 the multiyear rate plan will put PSE in a better position to meet these obligations.

13 **Q. Do you agree with statements by Meyer and McGuire that PSE’s budgeted**
14 **O&M expense for 2025 and 2026 should be cut because PSE has shown the**
15 **ability to manage its O&M costs?**⁵

16 A. I do not agree. As I stated earlier, PSE has successfully managed its O&M costs
17 for many years. But PSE’s notable financial stewardship should not be used as a
18 misplaced reason to cut recovery of PSE’s O&M budget. That is simply illogical.
19 At the conclusion of every fiscal year, actual spending will never precisely match,
20 on a detailed basis, the spending that was originally budgeted nor will it match

⁴ Kensok, Exh. JAK-1CT at 38:7–40:9.

⁵ McGuire, Exh. CRM-1T at 122:5–123:3; Meyer, Exh. GRM-1T at 24:18-19.

1 precisely to the detailed spending that was approved in rates. Over time, priorities
2 change and unexpected events arise that explain this. These are realities of
3 financial management and stewardship that are not considered by McGuire and
4 Meyer, nor do they consider the important work that will not be accomplished if
5 funding is reduced, based on their proposals.

6 **Q. What specific concerns do you have with their adjustments?**

7 A. I have concerns with the basis for their adjustments, which only considers existing
8 or historic levels of O&M expense; relies upon almost year-old, stale budget
9 detail (in McGuire's case); and does not recognize the increased requirements
10 placed on PSE as we transition to cleaner energy in an equitable manner. It is not
11 sustainable for PSE to manage a \$24 million reduction in 2025 and 2026, as
12 proposed by McGuire,⁶ let alone the \$62 million in 2025 and \$64 million (\$55.5
13 million for electric and \$8.5 million for gas) in 2026 proposed to be reduced by
14 Meyer.⁷ The O&M funding PSE requests is necessary for PSE to meet the policy
15 goals set forth by the state of Washington, and to provide safe and reliable electric
16 and natural gas service to its customers in an environment of increasing risk. As
17 discussed by PSE witness Jamie Martin in her rebuttal testimony, if the
18 Commission adopts the reductions proposed by McGuire or Meyer, it is
19 reasonable to expect that PSE will make difficult decisions on what work it will

⁶ McGuire, Exh. CRM-1T at 121:12-23.

⁷ Meyer, Exh. GRM-1CT at 32:1-8.

1 no longer perform, and customers will experience different outcomes, with
2 impacts to clean energy, electrification, and reliability.⁸

3 **Q. Can you describe PSE's overall process for allocating costs in the O&M**
4 **expense category?**

5 A. Yes. After we have received Board approval of the O&M expense budget that is
6 designed to support the necessary work needed to accomplish our customers'
7 goals, meet state requirements, and reduce risk, my organization works directly
8 with the business to allocate the Board approved dollars at the detailed project,
9 cost center, work breakdown structure ("WBS"), and cost element levels. This
10 process is necessary to align existing budget spend and detail with the Board's
11 approved O&M expense budget, which is not otherwise possible before the Board
12 approved budget becomes known. Allocation of these dollars takes place over
13 several months; at the end of the process, all dollars are allocated to the lowest
14 level of detail: cost centers, WBSs, and cost elements. This allows the FP&A
15 department to measure, analyze, report on, and communicate variances in
16 financial metrics as compared to budgets, and provides senior management
17 support for decisions that may be necessary to reallocate funds and staff where
18 necessary to meet goals and mitigate emerging risks. To accomplish this, it is
19 important that PSE remain flexible and agile in how and where funds are
20 allocated. Agility in this area is one reason PSE has, over time, successfully
21 managed its O&M costs within budget.

⁸ Martin, Exh. JLM-1CT.

1 **Q. Is there anything else you would like to add with respect to the**
2 **reasonableness of PSE’s overall O&M budget in this multiyear rate plan?**

3 A. Yes. As discussed in the Prefiled Rebuttal Testimony of Susan E. Free, Exh. SEF-
4 28T, and as shared in PSE’s Response to WUTC Staff Data Request No. 173,⁹
5 amortization and interest expense related to three finance leases were
6 inadvertently excluded from the O&M adjustment and the rate case revenue
7 requirement calculations in PSE’s direct filing. As a result, PSE’s overall
8 requested revenue change in its direct filing is understated by as much as \$5.3
9 million by 2026, due to PSE inadvertently not including these financial leases in
10 its O&M adjustment. As discussed by Ms. Free, PSE has included these amounts
11 in its updated revenue requirement filed in rebuttal to more properly reflect the
12 O&M expenses expected to be incurred during the rate years.

13 **III. PSE’S RESERVE CONTINGENCY AND MANAGEMENT RESERVE**
14 **ARE REASONABLE AND APPROPRIATE**

15 **A. Reserve Contingency**

16 **Q. Commission Staff witness Chris McGuire questions PSE’s use of a reserve**
17 **contingency.¹⁰ Can you define the meaning of a “reserve contingency” for**
18 **O&M expense as used by PSE?**

19 A. Yes. Within the context of PSE’s overall O&M expense budget, a reserve
20 contingency is sometimes established for a project or program based on best

⁹ See Free, Exh. SEF-49C.

¹⁰ McGuire, Exh. CRM-1Tr at 119:20–121:8.

1 estimates of total O&M expense for that project or program, particularly when
2 cost center, WBS, and cost element detail cannot be reliably predicted at the time
3 the budget is established. For instance, it may not be known during the
4 development of the budget whether it will be the best solution to fulfill a project
5 with internal labor or outside resources. Although the reserve contingency is
6 based on specific projects and programs and sometimes included in the budget, no
7 funds are released for spending until after having gone through the appropriate
8 governance process, which includes leadership review and approval. This process
9 results in clarity into detailed spending at the cost center, WBS, and cost element
10 levels, which could not be reliably predicted when the budget was established.

11 **Q. Why is it appropriate for PSE to utilize a reserve contingency in its budget**
12 **process?**

13 A. In business and even household budgeting practices, the use of contingency
14 reserves is common, useful, and necessary. As a practical matter, it is impossible
15 to know with complete certainty the details of every expenditure at the time
16 budgets are prepared. PSE is no different in this regard and appropriately uses
17 reserve contingencies in these very circumstances, albeit on a limited basis.

18 **Q. What projects and programs does the reserve contingency support in 2025**
19 **and 2026?**

20 A. As stated in PSE's Response to WUTC Staff Data Request No. 106, which is
21 provided by McGuire as Exh. CRM-8, the reserve contingency expenses for 2025

1 and 2026 support: utility-scale resource acquisition to meet clean energy and
2 capacity needs; the Distributed Energy Resources Empowerment Pilot aligned
3 with Condition 27 of Order 08 for PSE’s 2021 Clean Energy Implementation Plan
4 (“CEIP”);¹¹ additional incentives for distributed energy resources for named
5 communities, particularly for customers in deepest need; and equitable clean
6 energy engagement activities.

7 **Q. Does a reserve contingency remain static and unchanged throughout the**
8 **budget year?**

9 A. No. From a forecasting perspective, the amount of reserve contingency that is
10 expected to be deployed in a given year is refined and updated on a monthly basis
11 by the project or program leadership team.

12 **Q. Commission Staff witness McGuire takes issue with the existence of a reserve**
13 **contingency because it represents “unforeseen and unplanned” expenses, is**
14 **not known and measurable, and he states it should be disallowed in its**
15 **entirety.¹² Do you agree?**

16 A. No. First, it is important to recognize that the projects and programs are known;
17 however, the detailed expense drivers, at the WBS and cost element levels of the
18 projects or programs sometimes cannot be fully known at the time the budgets are
19 set. As I describe above, that changes over time, and the projects and programs

¹¹ See *Puget Sound Clean Energy Implementation Plan*, Docket UE-210795, Order 08 ¶316 (June 6, 2023).

¹² McGuire, Exh. CRM-1Tr at 120:6–121:8.

1 for 2025 and 2026 for which the reserve contingency is allocated have been
2 identified. Mr. Kensok provided a detailed discussion of the processes PSE
3 follows that allows it to allocate these funds in his prefiled direct testimony, Exh.
4 JAK-1CT.¹³ Reserve contingencies in PSE's O&M budget are one of the tools
5 that allows PSE to manage to its O&M budgets and remain flexible and agile to
6 meet its goals. Reserve contingencies are a common and necessary tool, and it
7 would be wholly unreasonable to limit the use of tools that allow companies to
8 flexibly manage their budgets. Finally, as noted above, PSE provided the details
9 associated with the allocation of the reserve contingency to specific projects and
10 programs in response to WUTC Staff Data Request No. 149. I have provided
11 PSE's Response as Exh. TRH-4 and I have provided the Excel spreadsheet that is
12 Attachment A to PSE's Response to WUTC Staff Data Request No. 149 in its
13 entirety as Exh. TRH-5.

14 **Q. McGuire states in his testimony that PSE's use of reserve contingencies**
15 **cannot meet the Commission's known and measurable standard.¹⁴ How does**
16 **PSE respond?**

17 A. Please see the Prefiled Rebuttal Testimony of Susan E. Free, Exh. SEF-28T for a
18 further discussion of the known and measurable standard in the context of
19 projected O&M expenses in a multiyear rate plan.

¹³ Kensok, Exh. JAK-1CT at 29:16–33:6.

¹⁴ McGuire, Exh. CRM-1Tr at 119:6-14.

1 **Q. Is McGuire’s proposal to remove PSE’s reserve contingency reasonable?**¹⁵

2 A. No, it is not reasonable for several reasons. First, the O&M expenses that
3 McGuire proposes to disallow are specifically related to PSE’s CEIP. In this
4 proceeding, those expenses are being moved from PSE’s current CEIP tracker
5 mechanism into base rates. Any disallowance of those expenses, either in whole
6 or in part, will impact PSE’s ability to make progress on its important CEIP
7 initiatives. This simply should not be allowed.

8 Second, McGuire fails to consider the complexities of PSE’s budget process, in
9 which budgets and forecasts are continually refined as is described in this
10 testimony and the prefiled direct testimony of PSE witness Kensok.¹⁶ In this
11 regard, he ignores PSE’s Response to WUTC Staff Data Request No. 149 wherein
12 the subject expenses that were in a reserve contingency almost a year ago have
13 now been refined into the cost center, WBS, and cost element level of detail.
14 Instead, he focuses on the status of PSE’s 2025 and 2026 budget detail from
15 almost a year in the past to support his proposed disallowance.

16 Third, PSE’s continual efforts to refine budgets and forecasts is not a “relabeling”
17 exercise as McGuire suggests in his testimony.¹⁷ Here again McGuire fails to
18 acknowledge the complexities of PSE’s budgeting and forecasting processes. The
19 budget refinements presented in Exh. TRH-5, Attachment A to PSE’s Response to
20 WUTC Staff Data Request 149, are the result of time-consuming, detailed

¹⁵ McGuire, Exh. CRM-1Tr at 121:1-8.

¹⁶ Kensok, Exh. JAK-1CT at 29:16-33:6.

¹⁷ McGuire, Exh. CRM-1Tr at 116:19-117:3.

1 analysis by PSE's FP&A staff, budgeting staff, and cost center managers to arrive
2 at the most accurate level of budget detail possible at a given point in time.

3 Fourth, McGuire's reliance on the Commission's known and measurable standard
4 is of little relevance in these circumstances, as PSE witness Free testifies in her
5 prefiled rebuttal testimony.¹⁸ For all these reasons, McGuire's proposed expense
6 disallowance should be rejected.

7 **Q. Are there problems or other unintended consequences associated with the**
8 **"relabeling" exercise McGuire suggests occurred?**

9 A. Yes. A "relabeling" exercise, one of simply moving dollars from a reserve
10 contingency to someplace else in the budget, without engaging in the time
11 consuming work, analysis, and budget development activities to precisely allocate
12 dollars to legitimate and necessary categories, would result in budget chaos that
13 would seriously undermine PSE's ability to manage its O&M spend. Simply
14 "relabeling" would result in loss of transparency to priority spending, might
15 overstate budgets in affected areas, and might result in unnecessary spending on
16 an actual basis. PSE's budget process avoids all of these negative consequences.
17 Having transparency to reserve contingencies, until they can be more precisely
18 allocated, allows PSE to maintain control of its budgets and avoid the unintended
19 consequences mentioned above. Relabeling, in the manner McGuire suggests, is

¹⁸ Free, Exh. SEF-28T.

1 not part of PSE's budgeting process, and it never will be for all of the reasons
2 mentioned above.

3 **Q. How does the reserve contingency compare to PSE's total O&M expense in**
4 **this case?**

5 A. PSE's total O&M expense is \$862.9 million in 2025 and \$892.5 million in 2026.
6 At the time of PSE's filing, the reserve contingency was \$7.7 million in 2025, and
7 \$6.9 million in 2026, which is less than one percent of the total O&M expenses
8 that PSE requests in both 2025 and 2026. In other words, over 99 percent of
9 PSE's budget was reserve contingency free at the time of its filing and is 100
10 percent reserve contingency free in the reallocated budget detail submitted on
11 June 21, 2024, in PSE's Response to WUTC Staff Data Request No. 149,
12 provided as Exhs. TRH-4 and TRH-5.

13 **B. Management Reserves**

14 **Q. McGuire recommends a disallowance of a portion of PSE's forecasted pro**
15 **forma Management Reserve expenses in 2025 and 2026 claiming they**
16 **represent "unforeseen" costs.¹⁹ Do you agree?**

17 A. No. McGuire takes the same misguided approach he used to propose a
18 disallowance of reserve contingency to also propose a disallowance of
19 management reserve expenses in 2025 and 2026. In doing so McGuire creates a
20 misleading record and inaccurately, inappropriately, and pejoratively refers to

¹⁹ McGuire, Exh. CRM-1Tr at 119:1-18.

1 PSE's budget detail as an "indecipherable menagerie"²⁰ of numbers and a
2 "cacophonous"²¹ set of budget versions. The facts show otherwise.

3 **Q. Please describe what is meant by management reserves.**

4 A. Management reserves are sometimes established at the corporate level as part of
5 the bottom-up corporate budgeting process until they can be refined and allocated
6 to the lowest level of detail after having gone through the appropriate governance
7 process. This process results in clarity into detailed spending at the cost center,
8 WBS, and cost element levels based on the areas most in need of these additional
9 funds. As I discuss below, the management reserves for 2025 and 2026 have been
10 fully allocated as is reflected in the response to Staff DR 149, Exhs. TRH-4 and
11 TRH-5.

12 **Q. Please describe McGuire's approach in support of his proposed disallowance**
13 **of management reserves in 2025 and 2026.²²**

14 A. Certainly. As stated above, McGuire takes a similar approach to develop his
15 disallowance of management reserves as he did to develop his disallowance of
16 reserve contingencies. First McGuire, once again, fails to recognize the
17 complexities of PSE's budget process, in which budgets and forecasts are
18 continually refined over time. In doing so, he, once again, ignores PSE's
19 Response to WUTC Staff Data Request No. 149 wherein the management reserve

²⁰ McGuire, Exh. CRM-1T at 111:20.

²¹ McGuire, Exh. CRM-1T at 115:13.

²² McGuire, Exh. CRM-1Tr at 110:15–119:18.

1 expenses he proposes to disallow have now been refined into a more accurate cost
2 center, WBS, and cost element level of detail. Once again, he focuses only on the
3 status of PSE's 2025 and 2026 budget detail almost a year in the past to support
4 his proposed disallowance. In doing so, he ignores the information provided in
5 PSE's Response to WUTC Staff Data Request No. 149, Exhs. TRH-4 and TRH-5.

6 Second, PSE's continued efforts to refine budgets and forecasts is not a
7 "relabeling" exercise. PSE describes why this is so earlier in this testimony. Once
8 again, McGuire either ignores or misunderstands the complexities of PSE's
9 budgeting and forecasting processes and PSE's Response to WUTC Staff Data
10 Request No. 149, Exhs. TRH-4 and TRH-5. As stated above, with respect to
11 reserve contingencies, the budget refinements presented in PSE's Response to
12 WUTC Staff Data Request No. 149, Exhs. TRH-4 and TRH-5 are the result of
13 time-consuming, detailed analysis by PSE's FP&A staff, budgeting staff, and cost
14 center managers to arrive at the most accurate level of budget detail possible at a
15 given point in time. Third, McGuire's continued reliance on the Commission's
16 known and measurable standard is of little relevance in these circumstances, as
17 PSE witness Free testifies in her prefiled rebuttal testimony.

18 **Q. Does McGuire misunderstand or misinterpret PSE's complex budget process**
19 **in other ways?**

20 A. Yes. McGuire states: "Staff does not believe that it is a coincidence that the total
21 O&M expense in each iteration [of PSE's budget detail] is equal to the company's

1 board-approved O&M budget.”²³ He continues, “From this, it’s evident that,
2 while the Company’s O&M forecast began as a bottom-up exercise composed of
3 the forecasted O&M expenses across PSE’s various business units, in the end the
4 Company is just forcing its forecasted O&M expense to match the board-
5 approved budget. And what the “management reserve” appears to represent is the
6 amount in the total, board-approved budget over and above the amount in the
7 bottom-up O&M forecast.”²⁴

8 **Q. How do you respond?**

9 A. First, it is not a coincidence that PSE’s budget detail always matches the Board
10 approved O&M budget across various versions and iterations. In fact, that is
11 exactly what is supposed to happen and clearly illustrates that while PSE
12 continually redefines budget detail, it always reconciles back to the board
13 approved budget. This is not a problem, as McGuire suggests. Rather, it further
14 illustrates that PSE’s budgetary internal controls are working effectively and its
15 process is appropriately under those controls. Accordingly, what is “cacophony”
16 to McGuire is prudent budgetary internal control music to PSE.

17 Second, in the quote above, McGuire invokes another version of his “relabeling”
18 reference by stating that PSE “forces” its O&M budget detail to match the Board
19 approved budget.²⁵ PSE does no such thing. In each version and iteration of
20 PSE’s O&M budget detail, PSE continually refines that budget detail from reserve

²³ McGuire, Exh. CRM-1T at 115:13-15.

²⁴ McGuire, Exh. CRM-1T at 115:16-21.

²⁵ McGuire, Exh. CRM-1Tr at 115:18.

1 contingencies and management reserves into the most accurate level of budget
2 detail possible at a given point in time, and the budget detail must always equate
3 to the Board approved budget. As is stated above, this is simply prudent
4 budgetary internal control practice. Further, McGuire states that management
5 reserves “appear” to represent an amount in the total Board approved budget over
6 and above the amount in the bottom-up O&M forecast.²⁶ This is an incorrect
7 interpretation. Management reserves represent part of the bottom-up O&M budget
8 detail until those management reserves can be processed over time into a more
9 accurate level of budget detail possible at a given point in time. This is exactly
10 what PSE did and produced in its response to WUTC Staff Data Request No. 149,
11 Exhs. TRH-4 and TRH-5. The Commission should focus its attention on the
12 budget detail presented in PSE’s Response to WUTC Staff Data Request No. 149,
13 Exh. TRH-4 and TRH-5, and reject McGuire’s proposed disallowance of O&M
14 expense that relies on budget detail that is almost a year old and ignores the steps
15 in PSE’s budget process that have been explained in this proceeding.

16 **Q. McGuire spends considerable time discussing what he identifies as a**
17 **management reserves of \$65 million for 2025 and 2026.²⁷ Were these**

²⁶ McGuire, Exh. CRM-1Tr at 115:19.

²⁷ See McGuire, Exh. CRM-1T at 113:17-18, 117:18–118:17.

1 **amounts ultimately used in the development of the O&M budget that PSE**
2 **requests in this proceeding?**

3 A. No, they were not, and McGuire's reliance on those numbers is misleading and
4 incorrect. The Commission can safely ignore any reference McGuire makes to
5 \$65 million management reserves for 2025 and 2026.

6 **Q. Can you please explain further?**

7 A. Yes. McGuire claims that PSE's Board of Directors specifically approved a
8 management reserve of \$65 million for 2025 and 2026, but this is incorrect. In his
9 testimony, he only presents a portion of PSE's response from Exh. CRM-5.²⁸ In
10 addition, McGuire incorrectly pulls numbers from the wrong tabs in the work
11 book that supports PSE's Response to Public Counsel Data Request No. 150 and
12 was provided as Attachment A to that response. I have included Attachment A to
13 that response as Exh. TRH-3. The \$65 million references is found on an unrelated
14 tab within the work book and does not support the output that is referenced in the
15 response as approved by the Board. Had McGuire followed the cell references
16 and pulled from the correct source information within Exh. TRH-3, which are in
17 the tab titled "Total O&M Plan Data Table", he would have seen that the
18 management reserves were \$15.8 million for 2025 and \$17.3 million in 2026,²⁹
19 which are the same amounts as those presented in the work papers of Ms. Free
20 and Mr. Kensok as shown in the first and second columns of McGuire's Table 3.

²⁸ See McGuire, Exh. CRM-1T at 116:1-3; Exh. CRM-5 (PSE's Response to Public Counsel Data Request No. 150).

²⁹ See Exh. TRH-3, tab "Total O&M Plan Data Table," row 1108.

McGuire eventually uses these lower amounts to recommend a reduction to PSE's requested O&M expense. The Commission should not be distracted by the erroneous reference to management reserves of \$65 million, which were extracted by McGuire from the wrong tab within Exh. TRH-3 and, more importantly, were never amounts used in the development of PSE's O&M request in this proceeding. Further, for these reasons the Commission should disregard McGuire's contention that the Commission could theoretically disallow \$65 million from PSE's O&M expense request in this proceeding or otherwise use it as the high-end range of possible disallowances that the Commission might consider.

Q. Are PSE's 2025 and 2026 budgets now fully allocated?

A. Yes. As PSE has stated numerous times in this testimony, PSE has completed the time-consuming, prudent, and necessary task of allocating both management reserves and reserve contingencies, which is reflected in PSE's Response to WUTC Staff Data Request No. 149, Attachment A (Exh. TRH-5). Table 1 below reflects the results of this budget refinement exercise. For 2025, management reserves were \$(31.8) million at the time PSE filed its direct case and \$1.1 million after the refinement process as reflected in PSE's Response to WUTC Staff Data Request No. 149, Attachment A (Line 8, columns d and c, respectively). For 2026, management reserves were \$36.3 million at the time PSE filed its direct case and \$0.4 million after the refinement process as reflected in PSE's Response to WUTC Staff Data Request No. 149, Attachment A (Line 8, columns f and e,

respectively). Note that management reserves can be positive or negative as they are part of the total that reconciles Board approved budgets back to the detail.

Table 1 – Allocation of Management Reserves for Multiyear Rate Plan

Line	WBS Element Description	Planning Cost Element	2025		2026		2025		2026	
			Staff 149	SEF	Staff 149	SEF	Staff 149 v SEF	Staff 149 v SEF	Staff 149 v SEF	Staff 149 v SEF
			c	d	e	f	g	h	i	j
1	Mgmt Reserve & Corp Contingen	Outside Services Legal	\$ -	\$ (37,110,452)	\$ -	\$ 21,080,922	\$ 37,110,452	\$ (21,080,922)		
2	Mgmt Reserve & Corp Contingen	Outside Services Other	1,461,968	15,803,904	822,129	17,275,488	(14,341,936)	(16,453,359)		
3	Mgmt Reserve & Corp Contingen	Miscellaneous Expense	(353,008)	-	(400,760)	-	(353,008)	(400,760)		
4	Enterprise Risk Tracking OM	Outside Services-Service Prov		5,308,725		15,173,490	(5,308,725)	(15,173,490)		
5	Enterprise Risk Tracking OM	Outside Services Other		(17,704,296)		(19,267,608)	17,704,296	19,267,608		
6	Enterprise Risk Tracking OM	Payroll Taxes OH		(278,388)		(282,192)	278,388	282,192		
7	Enterprise Risk Tracking OM	Benefits OH		2,178,780		2,274,312	(2,178,780)	(2,274,312)		
8			\$ 1,108,960	\$ (31,801,727)	\$ 421,369	\$ 36,254,412	\$ 32,910,686	\$ (35,833,043)		

Q. How do the management reserves compare to PSE's total O&M expense in this case?

A. As previously noted, PSE's total O&M expense is \$862.9 million in 2025 and \$892.5 million in 2026. The management reserves for 2025 were \$15.8 million and in 2026 were \$17.3 million, approximately 1.8 percent and 1.9 percent, respectively, of the total O&M expenses in both 2025 and 2026. Management reserves that existed at the time of the GRC filing for both 2025 and 2026 totaled only 4.5 million, 0.25 percent of PSE's total O&M expense across the two year MYRP. Additionally, PSE's budgets were virtually 100 percent management reserve free in the reallocated budget detail submitted on June 21, 2024 in Attachment A to PSE's Response to Staff Data Request No. 149, provided as Exh. TRH-5. If management reserves were a materially higher percentage of its total O&M expense budget detail, say 20 to 30 percent or higher, that might not represent a prudent budget result. That is not what PSE presented in its GRC filed

1 budget detail. McGuire's proposal to disallow the management reserves
2 referenced above, is based on an unrealistic standard of precision and exactitude
3 that simply cannot exist in almost year old, stale data.

4 **Q. Given the record before it, what does PSE recommend to the Commission to**
5 **reach an appropriate conclusion with respect to reserve contingencies and**
6 **management reserves in this proceeding?**

7 A. PSE recommends that the Commission take a big picture view of PSE's O&M
8 expense request in this proceeding. In doing so, the Commission should place
9 significant weight on the fact that PSE's O&M expense request reflects first
10 quartile O&M per customer budget performance, as shown in Figure 1 above.
11 The Commission should put equally significant weight on PSE's ability to
12 manage budget to actual variances over significant periods of time. Figure 2
13 above illustrates that over the period 2014 to 2024 PSE has managed its budget to
14 actual variances to approximately 0.5 percent. The Commission should also place
15 significant weight on the fact that PSE's O&M expense request in this proceeding
16 is consistent with its historical spending trends and O&M spending increases over
17 time. These three factors combined should provide the Commission ample
18 comfort that PSE's O&M expense request is reasonable and contains no
19 overreach. These facts alone, along with the broad discretion the Commission has
20 under the multiyear rate plan statute as discussed by PSE witness Free, are strong
21 reasons for the Commission to approve PSE's O&M expense request.

1 Importantly, the Commission should also consider that in 2024 PSE expects to
2 overspend the amount of O&M expense built into its rates, and cost pressures to
3 safely, reliably, and efficiently serve its gas and electric customers along with
4 simultaneously complying with its obligations under CETA are expected to grow
5 and not subside. This is discussed in more detail in the Prefiled Rebuttal
6 Testimony of Jamie L. Martin, Exh. JLM-1CT. In this context, any disallowance
7 or reduction to PSE's O&M expense request in this proceeding is inappropriate
8 and unwarranted.

9 The main flaw in McGuire's proposal is he relies on budgetary detail that existed
10 in PSE's system over a year ago and ignores budget detail that is more accurate
11 and refined. This is inappropriate and does not reflect the dynamic and ever-
12 changing budgetary and forecast environment within which PSE operates, and it
13 overlooks the flexibility that PSE needs to operate within that environment. The
14 budget detail reflected in PSE's Response to WUTC Staff Data Request No. 149,
15 Attachment A, provided as Exh. TRH-5, is the most accurate information
16 available at this time. It should be used by and relied upon by the Commission to
17 approve PSE's O&M expense request in this proceeding.

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³¹ Meyer, GRM-1CT at 25:14-15.

1 overseeing the governance of the workforce to ensure PSE is optimizing resources
2 within a budgeted ceiling. PSE's conservative application of inflation is
3 appropriate to reasonably restore the expense to a level of funding that
4 approximates the costs expected to occur during the multiyear rate plan.³²
5 Additionally, Meyer states that he is concerned that PSE's forecasted labor
6 expense is based on an unknown number of employees, which is not known and
7 measurable, and that the inflation rate was used to forecast increases in labor costs
8 driven by new employee hires.³³ This is highly inaccurate. As stated in PSE's
9 Response to Public Counsel's Data Request No. 092 (Exh. GRM-8), PSE does not
10 utilize employee counts in its forecasting process. Labor expense is based on the
11 forecasted number of hours needed to complete the necessary work required to
12 maintain a safe and reliable utility for PSE's customers, while transitioning to
13 cleaner energy and promoting equity.

14 **Q. Should the Commission accept Meyer's proposed adjustments for labor and**
15 **non-labor?**

16 A. No, the Commission should not accept his proposed adjustments for several
17 reasons as stated above. PSE's 2024 budget was set at unsustainable 2023 levels
18 and did not include any inflationary costs. As discussed above, PSE's
19 conservative application of inflation is appropriate to reasonably restore the
20 expense to a level of funding that approximates the costs expected to occur during

³² Meyer, GRM-7 at 2.

³³ Meyer, GRM-1CT at 27:9-15.

1 the multiyear rate plan. PSE should not be penalized for requesting the required
2 amount of O&M expense to maintain safety and reliability for PSE's customers,
3 while transitioning to clean energy.

4 **B. Labor Forecast**

5 **Q. Meyer takes issue with PSE's labor forecast because he believes it fails to**
6 **take employee attrition into account. Can you describe his concerns?**

7 A. PSE applied a 7.83 percent inflation rate between 2024 and 2025 to capture
8 projected labor expenses in 2025. Meyer claims that this escalation factor captures
9 only wage increases for employees and new hires, while failing to account for
10 employee attrition. He argues that the forecasted labor expense is based on an
11 unknown number of employees which are not known and measurable.³⁴

12 **Q. Is PSE double-counting employee hours by failing to account for employee**
13 **attrition?**

14 A. No. There is no need to account for employee attrition, and there is no double
15 counting. As stated above, the forecasted labor expenses are based on the
16 forecasted number of hours needed to complete the necessary work required to
17 maintain a safe and reliable utility for PSE's customers, while transitioning to
18 cleaner energy. This is explained in Exh. GRM-8, PSE's Response to Public
19 Counsel Data Request No. 092. PSE relied on a forecast of labor hours and/or
20 outside service costs based on the work that is being forecasted. Those labor hours

³⁴ Meyer, Exh. GRM-1T at 27:9-15.

1 are then multiplied by an activity rate based on average salaries of the required
2 staff who will complete the necessary work.

3 **Q. Did PSE assume it would only add employees and that there would be no**
4 **attrition in the first year of the multiyear rate plan?**

5 A. No. As stated above, PSE's labor forecast is based on projected work hours, not
6 on headcount or FTEs. Because PSE's labor expense is forecasted using labor
7 hours and not FTEs, the resulting labor dollars are not tied to a presumed or set
8 staffing level. This method of modeling labor cost is agnostic to the actual head
9 count or FTE a company needs to carry. Accordingly, Mr. Meyer's concerns
10 about attrition are unfounded and should be disregarded. This is further supported
11 by the Prefiled Direct Testimony of Joshua A. Kensok, Exh. JAK-1CT in which
12 he describes PSE's overall targeted effort to reduce the increases in PSE
13 employees.³⁵ PSE targeted formalized headcount controls include a temporary
14 hiring freeze, a headcount reporting tool, and a formalized headcount review and
15 approval process in which PSE's senior management team reviews, discusses, and
16 approves every new or backfilled head count.

³⁵ Kensok, Exh. JAK-1CT at 38:13–39:20.

1 **Q. Does Meyer’s reliance on historical labor costs³⁶ represent a valid metric for**
2 **calculating labor costs in the future?**

3 A. No. Because PSE’s forecasted labor expenses are based on the forecasted number
4 of hours needed to complete the necessary work required, Meyer’s reliance on
5 historical labor costs is not appropriate. In this case, historical labor forecasting is
6 much less relevant than realistically anticipating the increased work that needs to
7 be done in order for PSE to meet its regulatory and legal policy requirements. Mr.
8 Meyer’s reliance on historical amounts to calculate reasonable expenses for 2025
9 and 2026 fails to account for PSE’s already-existing labor cost deficit and the
10 increased costs required in the immediate future. Lastly, the Commission should
11 not lose sight that PSE’s O&M expense remains at reasonable levels even with its
12 requested increases.

13 **Q. What should the Commission conclude about Meyer’s recommendation for**
14 **forecasted labor costs?**

15 A. Based on the above discussion, PSE has proposed a conservative and reasonable
16 level of labor expense in this proceeding, and the Commission should decline to
17 accept Mr. Meyer’s adjustment to labor costs.

³⁶ Meyer, Exh. GRM-1T at 28:21–29:13. By not allowing unstaffed positions, Meyer is holding PSE at historical levels of labor.

1 **C. Administrative and General (“A&G”) Non-Labor Expenses**

2 **Q. Can you describe Meyer’s argument as it relates to A&G Non-Labor**
3 **expenses?**

4 A. Yes. Meyer identified a significant increase in costs for non-labor expenses in the
5 FERC Account 920 (A&G) Salaries.³⁷

6 **Q. Do you agree with Meyer’s adjustment?**

7 A. No. The A&G Non-Labor costs cited by Meyer and included in Exh. GRM-11,
8 PSE’s Response to Public Counsel Data Request No. 209, should not be adjusted.
9 Please refer to the Prefiled Rebuttal Testimony of Susan E. Free, Exh. SEF-28T
10 for further explanation of the FERC accounts and A&G Non-Labor costs.

11 **V. CONCLUSION**

12 **Q. What should the Commission decide related to PSE’s forecasted O&M**
13 **expense in this proceeding?**

14 A. PSE has proposed a reasonable forecast of O&M spending for the multiyear rate
15 plan that falls within reasonable historical trends yet supports PSE’s estimated
16 level of work for the rate years. The tools PSE has used over time to project,
17 allocate, and manage its O&M expense—including its reserve contingency and
18 management reserve—have served the company and its customers well, as PSE’s
19 O&M costs have remained low. Commission Staff’s efforts to use these tools to

³⁷ Meyer, Exh. GRM-1CT at 30:8-15.

1 inappropriately justify an expense disallowance should be rejected by the
2 Commission.

3 The current levels of mitigation that exist today to arrive at a level of O&M
4 expense savings are not sustainable if PSE is to move forward with the clean
5 energy transition while providing safe and reliable core utility services.

6 Therefore, the Commission should approve PSE's O&M expenses as updated in
7 its rebuttal revenue requirement.

8 **Q. Does that conclude your prefiled rebuttal testimony?**

9 **A. Yes.**