

1 **Q. Do these actions eliminate the need for the proposed rate increase?**

2 A. No. The effect of these steps is to moderate rather than eliminate the growth in the
3 Company's costs.

4 **Q. How does PSE compare to other utilities in terms of costs per customer?**

5 A. When looking at natural gas and electric operations and maintenance costs per
6 customer, PSE remains one of the lowest cost providers among investor-owned
7 utilities in the United States, as is reflected in Exhibit No.__(SML-3).

8 **Q. Has PSE been earning its authorized rate of return since its last general rate
9 case?**

10 A. No. As discussed in the prefiled direct testimony of Mr. Gaines, PSE's actual
11 regulated return on equity for calendar year 2010 was 4.8 percent compared to the
12 weighted 10.11 percent return on equity authorized by the Commission for the
13 period.

14 **Q. Can you elaborate on the reasons for PSE's failure to earn its authorized
15 return on equity?**

16 A. Yes. The bulk of both electric and natural gas "distribution" capital (e.g., pipes,
17 wires and poles) is spent on replacing aging infrastructure. The new plant is more
18 expensive than the plant that is being replaced. For example, as Ms. McLain
19 testifies, the cost to purchase and install four-inch diameter plastic gas main has
20 increased from \$9 per foot in 1980 to nearly 424 \$109 per foot in 2010. The replacement of