EXH. JAK-1CT
DOCKETS UE-190529/UG-190530
UE-190274/UG-190275
2019 PSE GENERAL RATE CASE
WITNESS: JOSHUA K. KENSOK

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-190529** **Docket UG-190530 (*Consolidated*)**
In the Matter of the Petition of **PUGET SOUND ENERGY** **For an Order Authorizing Deferral Accounting and Ratemaking Treatment for Short-life IT/Technology Investment**	**Docket UE-190274** **Docket UG-190275 (*Consolidated*)**

PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF

JOSHUA A. KENSOK

ON BEHALF OF PUGET SOUND ENERGY

REDACTED VERSION

JANUARY 15, 2020

PUGET SOUND ENERGY

PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF JOSHUA A. KENSOK

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PUGET SOUND ENERGY

PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF JOSHUA A. KENSOK

I. INTRODUCTION

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

A. My name is Joshua A. Kensok. My business address is 355 110th Avenue NE, Bellevue, WA 98004. I am Director FP&A and Budgeting for Puget Sound Energy.

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

A. Yes, I have. Please see the First Exhibit to the Prefiled Direct Rebuttal Testimony of Joshua A. Kensok, Exh. JAK-2 for an exhibit describing my education, relevant employment experience, and other professional qualifications.

Q. What are your duties as Director FP&A and Budgeting at Puget Sound Energy?

As Director FP&A and Budgeting I oversee corporate financial planning and analysis, capital allocation and budgeting, business initiatives and generation resource acquisition. 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 director approval of five-year budgets for operational and capital expenditures.

Q. What is the purpose of your rebuttal testimony?

A. First, I respond to testimony from Commission Staff witness Chris McGuire and his assertions that PSE has not met the Commission's threshold criteria for assessing the need for an attrition adjustment. I demonstrate that PSE will underearn in the rate year without the requested attrition relief and under Staff's proposed rate relief. I further demonstrate that PSE's existing regulatory mechanisms are insufficient to allow PSE to earn its authorized return on equity, contrary to the testimony of AWEC witness Michael Gorman. Second, I respond to assertions by parties, including Kroger and AWEC, who assert that PSE's proposed attrition adjustment is not reasonable or is an extreme overreach. To do this I compare the Black & Veatch updated attrition adjustment to PSE's planned capital expenditures and projected gross utility plant additions for the rate year. As further support for the appropriateness of using PSE's budgeted capital expenditures and net utility plant additions, I demonstrate the accuracy of PSE's historical forecast for operations expenditures and capital expenditures.

II. PSE WILL UNDEREARN IN THE RATE YEAR WITHOUT THE REQUESTED ATTRITION RELIEF

Q. Before addressing the specific testimony of responding parties, please summarize PSE's proposal for an attrition adjustment in this case and the revenue shortfall that it is designed to address.

A. PSE is requesting an attrition adjustment in this proceeding to address the backward-looking, historical nature of traditional ratemaking, which contributes significantly to regulatory lag and attrition. PSE's attrition analysis took into consideration the following four components: (1) PSE's 2008-2018 Commission Basis Reports; (2) PSE's historical period plant accounts; (3) PSE's revenue projections; and (4) PSE's rate year capital projections.[1] As discussed in the prefiled rebuttal testimony of Ronald J. Amen, after updating the attrition analysis, the attrition revenue shortfall for electric is $90.7 million and the attrition revenue shortfall for natural gas is $112.4 million.[2]

Q. What is Commission Staff's response to PSE's attrition adjustment?

A. Commission Staff takes the position that PSE has not met the criteria for an attrition adjustment because, according to Commission Staff, PSE is not experiencing chronic underearning, is not likely to experience attrition in the rate

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[1] Amen, Exh. RJA-1T at 23-34.

[2] Amen, Exh. RJA-8 at 93 and Exh. RJA-9 at line 91. Amounts were calculated using an ROE of 9.7%. Please see the Prefiled Rebuttal Testimony of Susan E. Free, Exh. SEF-17T for a discussion of the recommended ROE at 9.5% versus the 9.7% included in PSE's revenue requirement calculations. The attrition shortfalls using 9.5% ROE would be $84.2 million for electric and $109.7 million for gas.

year, and Commission Staff believes that the costs PSE identifies are not outside of the company's control.[3] Instead of an attrition adjustment, Commission Staff has proposed a relaxing of the pro forma approach for short lived assets, allowing end-of-period ("EOP") rate base, modifying the materiality threshold and supporting recovery of deferred depreciation expense from prior periods for AMI investments and GTZ investments.[4]

Q. Do you agree with the assertion of Commission Staff witness Chris McGuire that PSE has not met the criteria for an attrition adjustment?

A. No. My understanding is that when considering proposals for attrition adjustments, the Commission will consider whether a utility has underearned in the past, and whether it is likely to underearn during the rate year absent the attrition relief. Based on my analysis presented in this rebuttal testimony, PSE will underearn during the rate year unless attrition relief is granted. I disagree with Mr. McGuire's conclusion that PSE is not likely to experience attrition in the rate year. Furthermore, my analysis shows that PSE will underearn in the rate year under the rate relief proposed by Commission Staff and all other parties.

Q. Are you responding to assertions by Mr. McGuire that PSE has failed to demonstrate chronic underearning?

A. No. Mr. Doyle and Ms. Free address PSE's chronic underearning, in their direct and rebuttal testimony.

[3] McGuire, Exh. CRM-1T at 14:9-20.
[4] McGuire, Exh. CRM-1T at 15:1-6.

Q. On what do you base your assertion that PSE will fail to earn its authorized rate of return in the rate year, absent an attrition adjustment?

A. As demonstrated in Exh. JAK–3 for various rate relief outcomes and based on PSE's own internal financial forecasting, I project that PSE will underearn its authorized rate of return for both the electric and gas businesses during the rate year without appropriate rate relief, including an attrition adjustment.

Table 1 reflects PSE's internal financial forecasting for operating income, rate base, and earned rate of return for both the electric and gas businesses during the prospective 12-month rate period from May 2020 to April 2021 under the outcome that combined rate relief for the rate year is equal to PSE's direct filed revenue requirement of $164 million[5], which excludes attrition adjustments. Operating income is derived from revenue projections based on assumptions including cost of service, rate design, and energy and capacity demand and expense projections utilizing PSE's board approved budget assumptions for operations expenditures, capital expenditures, power and gas costs, depreciation and amortization expense, federal income tax expense, and taxes other than income tax, etc. Rate base is similarly calculated for electric and gas separately using projected capital expenditures, assumptions for utility plant placed into service, depreciation and amortization expense, accumulated deferred federal income taxes, deferred debits and credits, and allowance for working capital. Calculated net operating income is then divided by rate base to determine

[5] From Table 1 in Free, Exh. SEF-17T at 9.5 percent.

the earned rate of return during the rate year which is then compared to the authorized rate of return to arrive at PSE's projected over or under earning during the rate year.

Indeed, for both the electric and gas businesses when excluding an attrition adjustment, PSE is expected to underearn its direct-filed authorized rate of return of 7.57%[6] and 7.48%[7] during the rate year. Further, when taking into consideration various levels for return on equity in the authorized rate of return from 9.5% to 9.7% as discussed in the rebuttal testimony McArthur, Morin, and Doyle, the conclusion that PSE will underearn its authorized rate of return during the rate year without attrition rate relief remains unchanged.

[6] PSE's rate of return using a 9.7% return on equity.
[7] PSE's rate of return using a 9.5% return on equity.

Table 1. Operating Income for the GRC Rate Year May 2020 - April 2021, PSE direct filed excluding attrition

Line No.	Description ($ in millions)	May 2020-April 2021
1	**Electric Operating Income**	
2	Projected Electric Operating Revenue	$ [redacted]
3	PSE Electric Operating Revenue Increase	[redacted]
4	*Total Electric Operating Revenue*	$ [redacted]
5		
6	*Total Operating Expenses*	$ [redacted]
7		
8	**Total Electric Net Operating Income**	$ [redacted]
9		
10	**Rate Base**	
11	*Electric AMA Ratebase & Working Capital*	$ [redacted]
12		
13	**Electric Rate of Return**	[redacted]
14		
15	**Allowed Rate of Return (ROE=9.7%)**	[redacted]
16	**Allowed Rate of Return (ROE=9.5%)**	[redacted]
17		
18	**Over / (Under) Earning @ 7.57% ROR**	[redacted]
19	**Over / (Under) Earning @ 7.48% ROR**	[redacted]

Line No.	Description ($ in millions)	May 2020-April 2021
1	**Gas Operating Income**	
2	Projected Gas Operating Revenue	$ [redacted]
3	PSE Gas Operating Revenue Increase	[redacted]
4	*Total Gas Operating Revenue*	$ [redacted]
5		
6	*Total Operating Expenses*	$ [redacted]
7		
8	**Total Gas Net Operating Income**	$ [redacted]
9		
10	**Rate Base**	
11	*Gas AMA Ratebase & Working Capital*	$ [redacted]
12		
13	**Gas Rate of Return**	[redacted]
14		
15	**Allowed Rate of Return (ROE=9.7%)**	[redacted]
16	**Allowed Rate of Return (ROE=9.5%)**	[redacted]
17		
18	**Over / (Under) Earning @ 7.57% ROR**	[redacted]
19	**Over / (Under) Earning @ 7.48% ROR**	[redacted]

Q. You testified that PSE would fail to earn its authorized return if Commission Staff's rate proposal is accepted by the Commission. On what do you base your assertion that the rate relief Commission Staff proposes will cause PSE to underearn

A. Table 2 below shows that the same analysis described above when incorporating staff's proposed rate relief yields an even lower rate of return and more severe underearning in the rate year of between [redacted] to [redacted] for electric and [redacted] to [redacted] for gas under different cost of capital scenarios.

Table 2. Operating Income for the GRC Rate Year May 2020 - April 2021, including Staff Recommended Revenue Increases

Line No.	Description ($ in millions)	May 2020-April 2021	Line No.	Description ($ in millions)	May 2020-April 2021
1	**Electric Operating Income**		1	**Gas Operating Income**	
2	Projected Electric Operating Revenue	$ [redacted]	2	Projected Gas Operating Revenue	$ [redacted]
3	Staff Electric Operating Revenue Increase		3	Staff Gas Operating Revenue Increase	
4	*Total Electric Operating Revenue*	$	4	*Total Gas Operating Revenue*	$
5			5		
6	*Total Operating Expenses*	$ [redacted]	6	*Total Operating Expenses*	$ [redacted]
7			7		
8	**Total Electric Net Operating Income**	$ [redacted]	8	**Total Gas Net Operating Income**	$ [redacted]
9			9		
10	**Rate Base**		10	**Rate Base**	
11	*Electric AMA Ratebase & Working Capital*	$ [redacted]	11	*Gas AMA Ratebase & Working Capital*	$ [redacted]
12			12		
13	**Electric Rate of Return**	[redacted]	13	**Gas Rate of Return**	[redacted]
14			14		
15	**Allowed Rate of Return (ROE=9.7%)**	[redacted]	15	**Allowed Rate of Return (ROE=9.7%)**	[redacted]
16	**Allowed Rate of Return (ROE=9.5%)**		16	**Allowed Rate of Return (ROE=9.5%)**	
17			17		
18	**Over / (Under) Earning @ 7.57% ROR**	[redacted]	18	**Over / (Under) Earning @ 7.57% ROR**	[redacted]
19	**Over / (Under) Earning @ 7.48% ROR**		19	**Over / (Under) Earning @ 7.48% ROR**	

Q. AWEC witness Michael Gorman testifies that the Commission should reject PSE's attrition adjustment because current regulatory mechanisms are adequate to provide a reasonable opportunity to earn its authorized return on equity.[8] Do you agree?

A. No, I do not agree.

Q. Why aren't existing regulatory mechanisms such as gas CRM, ERF and accounting deferrals sufficient to allow PSE to fully recover its cost of service and earn its approved rate of return as Mr. Gorman claims?

A. Assuming an extrapolation of current effective rate recovery mechanisms including gas CRM, ERF and accounting deferrals and no additional rate relief, the effect of attrition on PSE's ability to earn its authorized rate of return is most

[8] Gorman, Exh. MPG-1T at 18.

obvious. As demonstrated in Table 3 below, in the event that no incremental rate relief were to occur during the rate year and only existing rate mechanisms are in place, PSE's earned rate of return would be nearly [redacted] to [redacted] basis points below its filed authorized rate of return. Clearly, the absence of new rate relief would have punitive impacts to PSE's financial results for the rate year.

Table 3. Operating Income for the GRC Rate Year May 2020 - April 2021

Line No.	Description ($ in millions)	May 2020-April 2021	Line No.	Description ($ in millions)	May 2020-April 2021
1	**Electric Operating Income**		1	**Gas Operating Income**	
2	*Electric Operating Revenue*	$ [redacted]	2	*Gas Operating Revenue*	$ [redacted]
3			3		
4	*Total Operating Expenses*	$ [redacted]	4	*Total Operating Expenses*	$ [redacted]
5			5		
6	**Total Electric Net Operating Income**	$ [redacted]	6	**Total Gas Net Operating Income**	$ [redacted]
7			7		
8	**Rate Base**		8	**Rate Base**	
9	*Electric AMA Ratebase & Working Capital*	$ [redacted]	9	*Gas AMA Ratebase & Working Capital*	$ [redacted]
10			10		
11	**Electric Rate of Return**	[redacted]	11	**Gas Rate of Return**	[redacted]
12			12		
13	**Allowed Rate of Return (ROE=9.7%)**	[redacted]	13	**Allowed Rate of Return (ROE=9.7%)**	[redacted]
14	**Allowed Rate of Return (ROE=9.5%)**		14	**Allowed Rate of Return (ROE=9.5%)**	
15			15		
16	**Over / (Under) Earning @ 7.57% ROR**	[redacted]	16	**Over / (Under) Earning @ 7.57% ROR**	[redacted]
17	**Over / (Under) Earning @ 7.48% ROR**		17	**Over / (Under) Earning @ 7.48% ROR**	

III. PSE'S PROPOSED ATTRITION ADJUSTMENT IS REASONABLE, REFLECTIVE OF COST SAVINGS, AND CONSISTENT WITH BUDGET PROJECTIONS

Q. AWEC witness Michael Gorman testifies that the attrition adjustment is not based on budgeted or planned costs of service.[9] Are the rates that would result from PSE's proposed attrition analysis in line with PSE's budgeted or planned costs of service?

A. Yes, my analysis in Exh. JAK-4 demonstrates that when compared to projections of both capital expenditures and net utility plant additions for 2019-2021, PSE's

[9] Gorman, Exh. MPG-1T at 5:3.

proposed attrition analysis is a conservative estimate of the costs expected to be incurred and included in PSE's rate base during and preceding the rate year.

Q. Mr. Gorman further testifies that PSE's proposed attrition mechanism does not reflect productivity gains or investment in new technology that is anticipated to lower operating costs and thus removes consumer protections inherent in the existing cost of service model. Do you agree with Mr. Gorman's conclusion?

A. No, I disagree with Mr. Gorman's conclusion. Productivity savings are factored into PSE's budgeting process and PSE's performance, and have allowed PSE to maintain a low cost per customer for both gas and electric. Exh. SEF-10, the ninth exhibit to Ms. Free's prefiled direct testimony, demonstrates this point. SEF-10 presents actual historical operations and maintenance ("O&M") costs per customer from 2013-2018, which shows that PSE has been able to constrain O&M cost per customer to 1.4% and 1.5% compound annual growth rate for electric and gas, respectively, far below the average rate of inflation for the corresponding period. Commission Staff has in the past endorsed similar approaches to measuring the success of a utility's cost containment efforts.[10]

Q. What does this growth in O&M spending demonstrate?

A. These results would not have been possible without a concerted effort to manage operating costs both through targeted budget management and investments in

[10] *See, e.g.*, Dockets UE-170485/UG-170486, Hancock, Exh. CSH-1T at 35:9-39:16 (encouraging the measurement of Avista's O&M growth against industry indices).

productivity. It is indeed a structured component of PSE's budgeting and financial management processes to achieve productivity gains through strategic investments in technology to both improve customer services and drive down operating costs where possible. PSE's corporate spending authorization process, the process for which capital expenditures are prioritized and deployed through business case development and financial analysis of costs and benefits of capital projects, project benefits are calculated and business owners are held accountable to the delivery of cash and non-cash benefits. Given that the attrition adjustment described in Mr. Amen's testimony is largely based on historical performance for operating costs, the achieved savings in O&M from major projects such as GTZ and FTIP are by design incorporated into the forecasted operating costs present in the rate year.

Q. Do you agree with Kroger witness Kevin Higgins that if the Commission adopts an attrition adjustment, it should exclude plant additions that are projected to go into service after the conclusion of year 2019?[11]

A. No. An attrition adjustment that excludes plant planned to go into service in 2020 and the rate year would be insufficient to allow PSE to earn its authorized return. Table 4 and Table 5 below show the capital expenditure levels included in the attrition adjustment compared with the planned capital expenditures. Mr. Higgins approach would exclude roughly $1.1 billion in plant additions from recovery.

[11] Higgins, Exh. KCH-1T at 3:9-12.

Table 4 Capital Expenditures

Capital Expenditures

NO.	TOTAL ATTRITION ANALYSIS	2019	2020	2021
1	Gross Plant Additions			
2	Production	[redacted]	[redacted]	[redacted]
3	Transmission	[redacted]	[redacted]	[redacted]
4	Electric Distribution	[redacted]	[redacted]	[redacted]
5	Intangible Plant	[redacted]	[redacted]	[redacted]
6	General Plant	[redacted]	[redacted]	[redacted]
7	Gas Distribution	[redacted]	[redacted]	[redacted]
8	Total	[redacted]	[redacted]	[redacted]
9				
10	**CAPITAL BUDGET** (2020 & 2021 details are based on the 2020 5-year plan)			
11				
12	Production	[redacted]	[redacted]	[redacted]
13	Transmission	[redacted]	[redacted]	[redacted]
14	Electric Distribution	[redacted]	[redacted]	[redacted]
15	Intangible Plant	[redacted]	[redacted]	[redacted]
16	General Plant	[redacted]	[redacted]	[redacted]
17	Gas Distribution	[redacted]	[redacted]	[redacted]
18	Total	[redacted]	[redacted]	[redacted]
19				
20	**Percent Change**			
21				
22	Production	[redacted]	[redacted]	[redacted]
23	Transmission	[redacted]	[redacted]	[redacted]
24	Electric Distribution	[redacted]	[redacted]	[redacted]
25	Intangible Plant	[redacted]	[redacted]	[redacted]
26	General Plant	[redacted]	[redacted]	[redacted]
27	Gas Distribution	[redacted]	[redacted]	[redacted]
28	Total	[redacted]	[redacted]	[redacted]

Table 5 Gross Utility Plant Additions

	Gross Utility Plant Additions			
NO.	TOTAL ATTRITION ANALYSIS	2019	2020	2021
1	Gross Plant Additions	[redacted]	[redacted]	[redacted]
2	Production			
3	Transmission			
4	Electric Distribution			
5	Intangible Plant			
6	General Plant			
7	Gas Distribution			
8	Total			
9				
10	GROSS UTILITY PLANT ADDITIONS			
11		[redacted]	[redacted]	[redacted]
12	Production			
13	Transmission			
14	Electric Distribution			
15	Intangible Plant			
16	General Plant			
17	Gas Distribution			
18	Total			
19				
20	Percent Change			
21		[redacted]	[redacted]	[redacted]
22	Production			
23	Transmission			
24	Electric Distribution			
25	Intangible Plant			
26	General Plant			
27	Gas Distribution			
28	Total			

Q. Are PSE budgets historically a good indicator of the actual spending that will take place during the period?

A. Yes, I provide in Exh. JAK-5 a comparison of historical actual performance relative to PSE's board approved budgets for operations expenditures and capital expenditures for the last five recorded years, 2014-2018. These are also shown in Tables 6, 7, and 8 below.

Table 6

Operational Expenditures budget vs. actuals from 2014 - 2018 ($ millions)

Line No.	Description ($ in millions)		2014	2015	2016	2017	2018	Cummulative
1								
2	Opex Budget	Electric	$ 402	$ 415	$ 419	$ 412	$ 434	$ 2,082
3		Gas	$ 143	$ 140	$ 147	$ 160	$ 161	$ 752
4		Total	$ 546	$ 555	$ 566	$ 572	$ 595	$ 2,834
5								
6	Opex Actuals**	Electric	$ 407	$ 398	$ 422	$ 422	$ 434	$ 2,082
7		Gas	$ 145	$ 134	$ 148	$ 164	$ 161	$ 752
8		Total	$ 551	$ 532	$ 570	$ 586	$ 595	$ 2,835
9								
10	$ Difference	Electric	(4)	17	(3)	(10)	0	$ (0)
11	(Opex Budget vs. Actuals)	Gas	(2)	6	(1)	(4)	0	$ (1)
12		Total	$ (6)	$ 23	$ (4)	$ (14)	$ 0	$ (1)
13								
14	% Difference	Electric	-1.1%	4.1%	-0.7%	-2.5%	0.0%	0.0%
15	(Opex Budget vs. Actuals)	Gas	-1.1%	4.1%	-0.7%	-2.5%	0.0%	-0.1%
16		Total	-1.1%	4.1%	-0.7%	-2.5%	0.0%	0.0%

Footnotes
** Capital and Operational Expenditures actual amounts are based on management reporting

Operating expenditures performance of actuals compared to forecast is within 1% of budget over the period 2014-2018, reflecting PSE's commitment to forecasting accuracy and financial results, as shown in the above Table 6.

Table 7

Capital Expenditures budget vs. actuals from 2014 - 2018 ($ millions)

Line No.	Description ($ in millions)		2014	2015	2016	2017	2018	Cummulative
1								
2	Capex Budget	Electric	$ 317	$ 329	$ 396	$ 617	$ 603	$ 2,262
3		Gas	$ 198	$ 265	$ 410	$ 475	$ 386	$ 1,733
4		Total	$ 514	$ 594	$ 807	$ 1,092	$ 988	$ 3,995
5								
6	Capex Actuals**	Electric	$ 294	$ 329	$ 431	$ 598	$ 575	$ 2,227
7		Gas	$ 196	$ 252	$ 284	$ 441	$ 450	$ 1,623
8		Total	$ 491	$ 581	$ 714	$ 1,039	$ 1,025	$ 3,849
9								
10	$ Difference	Electric	$ 22	$ 0	$ (34)	$ 20	$ 27	$ 35
11	(Capex Budget vs. Actuals)	Gas	$ 1	$ 13	$ 127	$ 34	$ (64)	$ 110
12		Total	$ 23	$ 13	$ 92	$ 53	$ (37)	$ 146
13								
14	% Difference	Electric	7.1%	0.1%	-8.6%	3.2%	4.5%	1.6%
15	(Capex Budget vs. Actuals)	Gas	0.5%	4.9%	30.8%	7.1%	-16.6%	6.4%
16		Total	4.6%	2.2%	11.4%	4.9%	-3.7%	3.6%

Footnotes
** Capital and Operational Expenditures actual amounts are based on management reporting

Capital expenditures for electric have been within $35 million and 1.6% of budgeted expenditures on a cumulative basis over the period 2014-2018, reflecting PSE's strong capital governance and project management policies and procedures. Gas capital expenditures are slightly more turbulent averaging 6.4% variance compared with budget over the same period, as shown in Table 7.

Q. Are there any explainable anomalies within the results you have provided?

A. Yes, the variances in gas capital expenditures during the period 2014-2018 representing a significant underspend compared with budget resulted from delays in construction of PSE's LNG facility where the board of directors had previously approved funding. When removing these uncontrollable variances, actual performance to budget for gas is also within an acceptable tolerance of -0.7% per year, as is demonstrated in the below Table 8.

Table 8

LNG Capital Expenditures budget vs. actuals from 2014 - 2018 ($ millions)

Line No.	Description ($ in millions)	2014	2015	2016	2017	2018	Cummulative
1							
2	LNG Capex Budget	$ 16	$ 17	$ 162	$ 164	$ 74	$ 433
3	LNG Capex Actuals	$ 5	$ 8	$ 42	$ 156	$ 99	$ 310
4	LNG Capex variance vs. budget	$ 11	$ 10	$ 120	$ 8	$ (25)	$ 123
5							
6	Total Gas Capex variance including LNG	$ 1	$ 13	$ 127	$ 34	$ (64)	$ 110
7							
8	Total Gas Capex variance excluding LNG	$ (10)	$ 3	$ 7	$ 25	$ (39)	$ (13)
9							
10	% Total Gas Capex variance excluding LNG	-4.9%	1.2%	1.7%	5.4%	-10.1%	-0.7%

Q. Are there any examples of external factors that could impact PSE's ability to manage actual performance to board approved budgets?

A. Yes. In addition to factors such as permitting delays that could shift spending requirements to later periods as illustrated above by the LNG project, there are external factors that have impacted operations in recent years. Significant storms like those suffered in 2012 and 2015 can disrupt operations and cash flow, requiring the redirection of resources and liquidity away from planned budget targets and impacting our ability to accurately project financial performance relative to budget. Additionally, non-discretionary public improvements and new customer construction which are determined by public demand can vary significantly from year to year. In 2018, combined public improvements and new customer construction contributed to a $20.9 million increase in capital expenditures relative to budget, whereas in 2017 spending in these same categories led to a reduction in capex of $11.3 million.

IV. CONCLUSION

Q. Please summarize the conclusions set forth in your rebuttal testimony.

A. My analyses demonstrate that without an attrition adjustment, PSE will fail to earn its authorized rate of return in the rate year. Contrary to the suggestion of AWEC witness Michael Gorman, PSE's existing regulatory mechanisms are insufficient to allow PSE to earn its authorized rate of return. If no incremental rate relief were to occur during the rate year and only existing rate mechanisms are in place, PSE's earned rate of return would be in the range of [redacted] to [redacted] basis points below its filed authorized rate of return. Moreover, PSE's attrition adjustment is reasonable and is supported by PSE's planned capital expenditures and projected gross utility plant additions for the rate year.

Q. Does this conclude your prefiled rebuttal testimony?

A. Yes, it does.