EXH. JAK-1T
DOCKETS UE-22___/UG-22___
2022 PSE GENERAL RATE CASE
WITNESS: JOSHUA A. KENSOK

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-22____** **Docket UG-22____**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

JOSHUA A KENSOK

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 31, 2022

PUGET SOUND ENERGY

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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 of Financial Planning and Analysis ("FP&A") for Puget Sound Energy ("PSE" or "the Company").

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

A. Yes, I have. Please see Exh. JAK-2, which describes my education, relevant employment experience, and other professional qualifications.

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

A. As Director of FP&A, I oversee corporate financial planning and analysis and capital allocation and budgeting. In addition, I analyze and evaluate the financial implications of various strategic, transactional, and programmatic initiatives. I am also responsible for PSE's long-term financial forecasting including managing the annual process to develop PSE's five-year business plan and obtain Board of

Directors ("Board") approval of five-year budgets for operation and maintenance ("O&M") expenses and capital expenditures.

Q. Please summarize your testimony.

A. PSE's multiyear rate plan presented in this case is based on a rigorous and robust business planning process that is governed by PSE's Board of Directors. PSE's existing financial planning systems, tools, processes, reporting, and governance enable the Company to develop, administer, and monitor business plans including the multiyear rate plan. These structures also allow PSE to fulfill regulatory obligations and deliver on planned strategic and operational objectives on behalf of PSE's customers and stakeholders.

The capital expenditures, gross plant additions, and O&M projections included in the multiyear rate plan were developed through these rigorous and robust processes. My testimony explains and illustrates (1) how PSE's financial planning systems, tools, processes, reporting, and governance operate in practice, (2) how they have performed over time, and (3) why they can be relied upon in the context of both developing and administering real-time the multiyear rate plan.

Q. How is the remainder of your direct testimony organized?

A. The remainder of my direct testimony is organized as follows:

- In Section II, I explain that PSE's projected capital and operations spending throughout the multiyear rate plan are reliable and based on sound financial planning and budgeting systems, processes, tools, controls, and governance. In

addition, I describe the importance of remaining operationally and financially flexible to allow the Company to respond to changed or changing business conditions and unforeseen, emergent needs of the business, and adapt to unplanned, exogenous events that are periodically imposed on the Company.

- In Section III, I provide an overview of PSE's multiyear rate plan and explain that it was developed by applying the systems, processes, tools, and controls described in Section II.

- In Section IV, I demonstrate the robustness of the systems, processes, tools, controls, and governance used to manage PSE's finances, and I explain how PSE's financial management approach is designed to adapt to changing circumstances.

- In Section V, I describe PSE's historical ability to respond and adapt to changes from budgeted and forecasted plans with respect to capital and operating spending, and how it has done so within narrow variance bands, while delivering against operational and financial corporate commitments.

II. PSE'S PROCESS FOR ALLOCATING CAPITAL AND OPERATING EXPENSES IS ROBUST

A. Business Planning Processes

Q. Please provide an overview of PSE's five-year financial planning and budgeting process.

A. PSE undertakes an annual five-year financial planning and budgeting process that is governed by PSE's Board of Directors. The Board's Business Planning Committee ("BPC") oversees the development of PSE's five-year business and financial plan, annual operating targets for O&M, capital expenditures, and other key financial performance indicators, as well as additional quantitative and qualitative service quality indices. The BPC is supported by PSE's management team and other internal functional subject matter experts who support areas such as load forecasts, power and gas costs, and revenues, among others.

The business planning process results in an operating and financial plan in which complete financial statement projections are developed. A forecast is produced for all major financial outputs including load and customer demand, cost of service revenue forecasts, cost of goods including power and gas costs, depreciation and amortization of utility property, other income and expense, interest expense, and taxes, among others.

Q. What is the timing of the annual business planning process?

A. The annual business planning process commences with the finalization of the prior calendar and fiscal year actual financial results. Management and governance of the business plan are year-round activities. During its development, the business plan is continually updated and iterated based on changing business conditions, inputs and assumptions, until it is ultimately approved by the Board each November. Once the plan "goes live" the following January, PSE's intra-year assessment process takes effect, which I describe in further detail in section IV, below.

Q. Please describe the tools and processes PSE uses in the business planning process.

A. As part of the business planning process, PSE uses (i) a comprehensive governance and oversight process involving PSE's Board and management; (ii) a suite of sophisticated and complex tools for budgeting, forecasting, and reporting

financial results for Board and management review; and (iii) well-defined processes and planning frameworks.

The primary tools PSE has deployed to support its financial planning processes are SAP's Business Planning and Consolidation ("SAP") software and the Utilities International Model ("UI Model"). These software tools facilitate budgeting, forecasting, and overall financial planning with a high degree of accuracy and facilitate alignment with actual spending and results that are captured in SAP.

Q. Please describe PSE's business planning governance and oversight process.

A. PSE applies rigorous governance and financial controls throughout the business planning process. Project approvals and spending authorization are governed by system configured controls. Regular reporting of operational and financial performance provides transparency of expenditures at an organizational, project, and cost driver level.

B. Capital Allocation Process

Q. Please provide an overview of PSE's capital planning and allocation processes.

A. PSE's capital planning and allocation framework prioritizes the allocation of finite financial resources to the highest priority initiatives to deliver customer benefits. Over time and, in particular, in connection with the intra-year assessment

process, PSE takes a continuous planning approach to capital allocation to effectively manage the capital portfolio by addressing deviations from established plans in the current year and across the five-year planning process.

Q. How does PSE prioritize investments when developing its capital plan and multiyear rate plan?

A. PSE leverages a three-tiered capital allocation and prioritization model to develop the five-year capital plan that is the basis for the multiyear rate plan. This tiered structure relies on a variety of tools and frameworks. It also relies on the judgment of subject matter experts and the collective knowledge of PSE management, the BPC, and the full Board of Directors.

Q. Please elaborate on the three-tiered capital and prioritization model.

A. The prioritization process is governed by PSE management, the BPC, and the Board of Directors, culminating in Board approval of the five-year plan, which includes capital and O&M plans.

Tier one is the departmental tier and is typically where projects and expenditures originate in the process, largely at the manager and director cost center level. Managers and directors operate on the front lines of the business and are best prepared to propose expenditures and projects that will meet the needs of the business and customers in the areas that they oversee.

Tier two involves interdepartmental prioritization within a functional business unit, generally at a vice president level. In this tier, managers and directors aggregate their cost center expenditures and projects into a functional business unit view that is reviewed and compared against a preliminary budget target at the vice president level for that business unit in each year of the five-year plan. Each functional business unit is required to iterate internally with its vice president, directors, managers, and subject matter experts to discuss, analyze, judge, and evaluate proposed expenditures and projects until the business unit arrives at a portfolio of expenditures and projects that funds the highest priority work within its budget targets. Each functional business unit then submits its proposed portfolio of expenditures and projects to the tier three process.

Tier three is a company-wide prioritization that occurs across the enterprise, which establishes organizational budget targets. Senior management and the Board of Directors are ultimately responsible for the evaluation and prioritization of all investments so that the allocation of capital resources represents the highest priority set of investments to deliver customer value.

Q. What types of trade-offs and judgments are made in the three tier process?

A. There are many points at which trade-offs are considered and judgment is applied. First, each functional business unit provides its proposed portfolio of expenditures and projects based on its budget targets across the five-year plan. Tier two applies a business-unit level prioritization based on judgment, with the understanding that

financial resources are not limitless. Finally, the tier three process may identify projects that one or more functional business unit may not have funded in the tier two process.

These discussions and deliberations can result in requests for further information and analysis as senior management and the Board work to allocate financial resources. Senior management and the Board must consider a corporate portfolio of projects and expenditures that meets the needs of the business and provides the highest level of customer benefit within operational and financial planning constraints.

Senior management and the Board place significant focus on the projects and initiatives included in PSE "strategic project" portfolio. These are often large-scale, multi-year, projects and initiatives that have high strategic impact such as data center mitigation, improvements to Lower Baker Dam safety, Advanced Metering Infrastructure, among others that are important to delivering safe, reliable, and affordable service to customers. Balancing the pace, progress, and timing of initiatives across the strategic project portfolio requires significant experience and judgment. This critical component of the process is repeated several times during the development of each five-year business plan before it receives the endorsement of senior management and the BPC for recommendation to the full Board of Directors.

Q. Please describe how PSE aligns its approved five-year plan and departmental budgets.

A. Consistent with PSE's overall process, capital allocation scenarios are modeled in the UI Financial Modeling tool prior to loading final allocation decisions into the system of record, SAP. SAP uses a work breakdown structure ("WBS") cost object concept to track budgets and actuals for the various lines of work the Company performs. There are WBS for all ongoing capital work, and a new WBS is created only when a new project or program is formally approved in accordance with PSE's business planning governance and is scheduled to proceed. Within each WBS, there are individual cost elements (e.g., labor, materials, office supplies, etc.), which accommodate specific types of expenses associated with a particular capital investment. Once the Company's business plans are finalized, the detailed financial budgets are loaded by month and cost element for the coming year. The capital budgets are reconciled to the approved business plan and validated in accordance with PSE's internal controls and governance. Please refer to the testimony of PSE witness Roque B. Bamba in Exh. RBB-1T for a discussion of the governance processes that PSE applies to effectively manage capital projects and programs throughout the lifecycle.

Q. Please describe the types of capital project work that PSE plans for and funds each year.

A. PSE's capital spending is composed of many distinct projects and activities that vary in scale and complexity. A considerable portion of the Company's aggregate spend applies to large, strategic projects designed to meet discrete and identifiable needs, such as the work PSE is planning to undertake on the Baker River Hydro Project.

The remainder of the Company's annual capital spending covers project work that is programmatic in nature. That is, a collection of small projects combine to form a portfolio or "program" of work that must be completed in the course of the Company's day-to-day efforts to meet its public service obligations. For example, construction of new service connections and PSE's pole management and replacement program are capital programs that PSE funds each year. Both include many small projects, such as the replacement of a single pole damaged in a traffic incident.

Q. What processes or frameworks do PSE business units use to make requests for capital spending on projects and programs?

A. PSE uses its Corporate Spending Authorization ("CSA") process to evaluate large, strategic projects that are designed to meet specific needs as well as its ongoing programmatic investments. The "CSA process" is a term PSE uses to

refer to the identification, evaluation, and prioritization of requests for capital spending. These requests originate within PSE's various operational units.

The threshold for investment requests that require a CSA is $2.5 million. Capital spending requests that fall under that amount are typically small but necessary investments for items such as facilities, furniture, and fixtures that are also evaluated for reasonableness and need, though not through the formal CSA process. These investments are important but do not merit strategic discussions that apply to the greater portion of PSE's capital portfolio.

Q. Please describe the CSA process.

A. PSE's CSA process provides a framework that the Company's operational units can use to make capital spending requests. The CSA process involves the application of various governance and financial controls mechanisms that are designed to consider spending requests in the context of business and operational requirements, describe any clear and identifiable benefits the project will provide to PSE and its customers, and obtain approval by appropriate corporate leaders. Requests that are processed through the CSA framework include business case information that allows PSE to prioritize the allocation of its capital resources, manage risks, and apply appropriate project management methodologies in the execution of approved capital requests.

Q. Please describe how requests flow through the CSA process.

A. PSE uses two processes for CSA requests: one for the annual process, which is a central part of PSE's five-year capital plan development, and one for off-cycle requests made outside of the five-year business planning process.

The CSA process begins at the operational unit level, where supervisors and other staff with deep subject matter expertise gather information such as a project/program overview to document the need for the investment in a project or program, expected schedules for implementation, financial impacts including expected ongoing operating costs and efficiencies, risks that must be managed, and documentation of internal approvals. CSAs are then assessed and prioritized based on the portfolio of requests that emerge from across all business units. This prioritization is subject to senior management and executive review, which is where the alignment of capital spending with customer benefits, PSE's long-term strategy, and enterprise risks takes place. The set of capital projects is then submitted to the BPC, which reviews plans and initiatives prior to inclusion and formal approval of capital budgets as part of the five-year business plan.

Q. How does this process apply for off-cycle requests?

A. Off-cycle CSA requests occur rarely, such as when an unplanned, immediate need arises that cannot wait for the annual process to unfold. When such circumstances arise, a new CSA request is provided to the Capital Governance Sub-Committee of the Board of Directors' Budget Committee. Off-cycle requests are assessed and

considered within the context of PSE's current performance to plan. The Capital Governance Sub-Committee makes a recommendation to the full Budget Committee, which makes a recommendation to the PSE Officer Team for adjustments that must be made to other strategic capital objectives to accommodate approved exigent requests.

Q. Is the Commission familiar with PSE's CSA process and framework?

A. Yes. The CSA process has been used to govern the consideration, approval, and oversight of capital projects the Commission has reviewed in prior general rate cases.

Q. Does PSE consider benefits in the CSA process and while developing its business plan?

A Yes, it does. Consideration of benefits is an essential part of the CSA process. In particular, the CSA process requires that PSE functional organizations identify any applicable operating cost efficiencies, productivity savings, and expected O&M savings in addition to other customer benefits to the extent applicable and practicable.

Q. Please describe how benefits inform the CSA process.

A. The CSA process requires operating units to identify and project material and quantifiable benefits that are expected to be produced as a result of capital and operating spending. The process assigns owners who are accountable for

achieving specific benefits and describes and explains benefit targets, achievement timeframes, and reporting mechanisms. Benefits realization itself often includes post-project benefit management, measurement, tracking/reporting, and validation for transparent comparison to financial plan assumptions.

Q. Do all capital projects generate quantifiable offsetting savings?

A. No. There are many projects that are implemented to serve new requirements or new customers, to comply with new government rules or laws, or simply to replace aging infrastructure that presents a risk to service reliability. In such cases, benefits may be qualitative in nature. These types of projects are important for effective and compliant utility operations, but do not lend themselves to quantification of cost or productivity savings.

For some other projects, the costs of tracking incremental improvements could easily exceed the benefits being tracked. PSE's CSA benefits realization process assesses this possibility and assigns benefit tracking accountability in accordance with prudent utility operations. That is, PSE strives to ensure that resources used to validate and quantify benefits are cost-effectively deployed.

Q. Please describe the benefits that have been quantified in the five-year PSE business plan presented in your testimony.

A. Table 1, below, summarizes identifiable and quantified benefits from capital programs that are presented in this case.

Table 1. CSAs with Benefits Quantified through the Development of Benefit Realization Plans

Corporate Spending Authorization	Estimated Benefits 2022	2023	2024	2025
Community Solar	$623,760	$997,894	$1,797,894	$2,444,469
Transportation Electrification			$32,953	$95,910
eProcurement Phase 3	$3,760,000	$3,856,000	$3,856,000	
IWM R5 - Customer & Project Enhancements				$400,000
Up & Go	$31,775	$46,312	$52,190	$52,190
WECC CIP-014-02 Mitigation	$78,096	$78,096	$78,096	$78,096
Generation RFP Process	$195,000	$390,000	$390,000	$390,000
Front Office	$163,000	$870,000	$1,370,000	$1,370,000
ADMS	$9,138,994	$2,245,036	$2,542,765	
GTZ IWM for Gas Operations	$1,180,995	$1,180,995		
Platform of Insights	$1,200,000	$1,200,000	$1,200,000	$1,200,000

Q. Are there other benefits in the multiyear rate plan?

A. Yes, Table 1 shows the quantifiable benefits associated with the above-listed projects. As previously discussed, there are many qualitative benefits associated with these and other projects and programs that are discussed throughout this case.

Q. Would you consider PSE's CSA process to be static, or does it evolve?

A. PSE's CSA process is evolutionary. The Company regularly reviews its financial management processes, tools, and other processes in efforts to improve process efficiency, facilitate disciplined management of resources, and to make sure that project prioritization and oversight mechanisms lead to successful outcomes for our core service obligations.

C. O&M Planning

Q. Please explain PSE's O&M expense forecasting methodology.

A. PSE's O&M forecast is a hybrid methodology of bottom-up work activity based on known forecasted work combined with historical trend performance, as well as a top-down escalation methodology that builds productivity savings into the forecast. The Company applies fixed escalation rates to certain cost elements in the O&M plan as a baseline of future expenses, which has the effect of setting rational targets for the business to plan while also providing a baseline to evaluate whether there are any significant discrete costs (or benefits) to include that would not otherwise be captured via cost escalation. Labor and outside services are the largest buckets or cost elements of O&M expense, making up nearly 80 percent of PSE's actual O&M expense in 2020; a 3.5 percent escalator is used for labor costs and a 2 percent escalator is used for outside services, which includes software and hardware expense. Other cost elements do not receive automatic escalators and remain flat from year-to-year. However, certain adjustments may be made at the discrete project or department level if changes can be estimated, are material, and are approved by management.

Q. Please provide examples of adjustments that are made for certain projects.

A. Adjustments could include a known property lease contract renewal that materially deviates from history, changes to maintenance contracts for a new technology or production facilities, permitting and siting delays, or investments in

new capabilities to comply with new state or federal policies, such as the Clean Energy Transformation Act ("CETA").

D. Exogenous Factors and the Effect on Management to Financial Targets

Q. Are there external factors that affect PSE's ability to manage to financial targets?

A. Yes. Several external factors can affect PSE's capital spending plan, its budget, and its ability to manage financial targets, such as EBITDA[1], cash flow, and credit metrics. These factors are often outside the Company's control and can include, for example:

1. New local, state or federal legislation/initiatives/mandates, including tax law changes;
2. Increases in customer demand for work that must be completed under a time constraint, such as new customer construction and public improvement work;
3. Volatility of power and gas costs (e.g., regional market dynamics, extreme heat increases, loads that tax capacity and reserve margins, Enbridge pipeline explosion, etc.);
4. Major unplanned equipment failures, whether related to PSE's assets or adjacent systems or markets in which PSE participates;
5. Permitting and siting delays;
6. Pricing changes and unexpected project or field conditions (e.g., inflation, supply chain issues, availability of contract resources that can drive costs higher than normal cost escalators, changes in scope and timing of project activities);

[1] EBITDA is earnings before interest, tax, depreciation, and amortizations.

7. Changes in the timing of plant investments going into service that affects depreciation and amortization expense and AFUDC accruals;

8. Unforeseen events such as extreme weather and acts of God (e.g., storm response may require the reallocation of financial and people resources, which could prevent PSE from executing to the original operational plan);

9. Changes in financing costs and access to liquidity and capital from public markets (e.g., due to market and/or macroeconomic stress or shocks such as persistent high inflation); and

10. Unanticipated outcomes in routine regulatory filings (e.g., PGA, conservation, decoupling, property taxes, gas cost recovery mechanism, all of which alter cash flows in comparison to plans).

Q. Please provide examples of external factors that have affected PSE's ability to manage actual performance to approved budgets.

A. Public improvements and new customer construction, which are determined by customer and public demand, can vary significantly from year to year. In 2020, combined public improvements and new customer construction contributed to a $28.7 million increase in capital expenditures relative to budget.

The cost of repairing damage to the system due to such storms has reached $50 - $100 million in some cases, which have significant impacts on cash flow. For example, the Hannukah Eve storm that struck PSE's service territory in 2006 was a $110 million storm. If a storm of that magnitude struck today the costs would be in the $170 million range, based on three percent inflation for storm repair costs. More recently, in 2012, PSE experienced "Snowmageddon," a $65 million storm, which if it struck today would be in the range of $85 million for storm costs, based on three percent inflation for storm repair costs.

Q. What steps might PSE take to reprioritize its capital budget when faced with external demands that are not included in the budget?

A. When the Company must make adjustments to budgeted capital projects, PSE management must reconsider the prioritization of capital and operating expenditure investments to maintain liquidity. PSE can reprioritize capital and defer a portion of a project portfolio to a future period, or perhaps cancel lower priority investments. In all cases, PSE's objective is to identify the highest priority work to complete within the overall financial constraints the Company faces.

Q. What are the implications of these external factors on the Company's planning process and the implementation of the multiyear rate plan?

A. Given the dynamic nature of PSE's business with growing sources of uncontrollable externalities, PSE must adapt to changing conditions while still delivering safe and reliable energy services to its customers. This requires PSE to balance competing projects and planned spending using clear financial objectives and associated controls. PSE's spending will differ from the multiyear rate plan submitted in this filing, while still representing the most prudent course of action. Put simply, PSE must be able to reallocate capital and expenses to respond to non-controllable factors, within reasonable guardrails and supported by rigorous governance and processes to manage the business to projected results in the multiyear rate plan while still approximating the spend levels that will be approved by the Commission in this proceeding.

Q. What is your conclusion regarding the process PSE uses to develop its projected capital and O&M expenditure projections?

A. PSE employs a rigorous process using a robust suite of tools to develop its projected capital expenditure plan and O&M expenses that can be relied upon by the Commission to establish rates for each year of the multiyear rate plan.

III. OVERVIEW OF PSE'S FIVE-YEAR INVESTMENT PLAN AND PROJECTED FINANCIAL SPEND

A. Multiyear Rate Plan Components

Q. What components of the multiyear rate plan revenue requirement do you sponsor?

A. I sponsor the five-year projections of capital expenditures, gross plant additions, and O&M expenditures that are included in PSE witness Susan E. Free's testimony, Exh. SEF-1T. These are provided in Exh. JAK-5.

Q. What are the capital expenditures included in the multiyear rate plan?

A. Table 2, below, presents the five-year projections of capital expenditures approved by the Board through 2026. Columns labeled 2022 through 2025 in Table 2 reflect the capital expenditures included in the multiyear rate plan. These figures were developed using a capital allocation methodology that is both robust and dynamic, as described in Section II of my testimony. The capital expenditures

in the multiyear rate plan have been approved by the Board of Directors, with updated information as described in Section III.B of my testimony, below.

Table 2. Projected Capital Expenditures by Function Class, 2022-2026 ($Millions)[2]

	2022	2023	2024	2025	2026
Production	$141.13	$136.76	$131.11	$125.32	$114.87
Transmission	107.69	105.82	45.99	29.47	26.65
Electric Distribution	359.20	572.17	642.87	684.08	675.89
Intangible Plant	53.02	118.50	134.50	134.72	145.44
General Plant	33.11	70.96	70.21	89.45	104.59
Gas Distribution and Storage	279.78	288.90	267.46	260.58	257.38
Total	**$973.94**	**$1,293.10**	**$1,292.14**	**$1,323.61**	**$1,324.82**

Q. What level of gross utility plant additions are included in the multiyear rate plan?

A. Table 3, below, presents the five-year projections of gross utility plant additions approved by the Board through 2026. Columns labeled 2022 through 2025 in Table 3 reflect the gross utility plant additions included in the multiyear rate plan. Gross utility plant additions represent the cost of adding new assets or improving existing assets that are used and useful in supporting the essential services PSE provides to its customers. The levels of gross utility plant additions included in the multiyear rate plan are included in more detail in Exh. JAK-5. These figures were calculated in the UI model, which I describe in Section II. In addition, the gross utility plant additions reflect updated information as described in Section III.B of my testimony.

[2] See Exh. JAK-5, page 1.

Table 3. Projected Gross Utility Plant Additions by Function Class, 2022-2026 ($Million)[3]

	2022	2023	2024	2025	2026
Production	$65.76	$36.80	$46.66	$519.16	$88.18
Transmission	124.26	63.05	304.04	33.97	29.43
Electric Distribution	231.16	501.74	462.33	513.44	513.25
Intangible Plant	62.74	123.28	125.84	129.39	163.20
General Plant	61.62	100.27	66.96	86.21	104.80
Gas Distribution and Storage	471.39	331.39	262.73	284.12	253.51
Total	**$1,016.92**	**$1,156.52**	**$1,268.55**	**$1,566.29**	**$1,152.36**

Q. What level of O&M expenditures are included in the multiyear rate plan?

A. Table 4, below, presents the five-year projections of O&M expenses approved by the Board through 2026. Columns labeled 2023 through 2025 in Table 4 reflect the O&M expenditures in the multiyear rate plan, which have not changed from the Board approved plan.

Table 4. Projected O&M Expenses 2022-2026 ($Million)[4]

Electric O&M	**2022**	**2023**	**2024**	**2025**	**2026**
Generation	$115.19	$122.06	$122.57	$129.97	$125.05
Transmission	28.14	29.55	30.29	31.28	32.85
Distribution	94.69	99.56	102.10	105.55	110.10
Customer Accounts	55.18	51.93	53.32	54.30	55.69
Customer Service	25.51	33.07	34.17	36.75	30.43
Admin and General	152.56	198.53	206.62	213.97	230.52
Total	**$471.28**	**$534.70**	**$549.08**	**$571.81**	**$584.64**
Gas O&M	**2022**	**2023**	**2024**	**2025**	**2026**
Generation	$11.46	$12.15	$12.45	$12.76	$12.77
Distribution	66.03	71.46	73.41	76.01	78.14
Customer Accounts	28.73	28.75	29.51	29.98	30.69
Customer Service	8.01	8.33	8.41	8.44	8.52

[3] See Exh. JAK-5, page 2.
[4] See Exh. JAK-5.

Admin and General	64.42	80.53	83.29	85.05	87.75
Total	**$178.66**	**$ 201.21**	**$207.08**	**$212.24**	**$217.87**
Total Company O&M	**$649.94**	**$735.91**	**$756.17**	**$784.05**	**$802.51**

Q. Is the pattern of spending growth in the multiyear rate plan consistent with historical spending?

A. No. As discussed by PSE witness Kazi K. Hasan, Exh. KKH-1CT, historical spending over the past few years has been restricted to maintain acceptable financial strength, and that reduced level of spending cannot be maintained without having a significant impact on safety, reliability and service quality. First, due to the financial and economic impacts of the COVID-19 pandemic and the resulting outcome of PSE's last rate case, PSE has reduced investments in both O&M and capital expenditures in recent years to manage the Company's financial performance and to avoid credit action including downgrade. Second, the standard cost escalations for labor and other cost categories mentioned earlier do not account for new investments that are required to facilitate PSE's dual mandate of providing safe and reliable energy services while implementing state clean energy goals, including but not limited to CETA. As such, there is a step change in spending in the multiyear rate plan period that is necessary if PSE is to provide safe and reliable service to its customers while also investing in the clean energy transformation.

Q. How were the capital expenditure, gross utility plant additions, and O&M expense projections for the multiyear rate plan developed?

A. Each of the projections were developed under the process I described in Section II of my testimony.

B. Process of Getting From the Board-Approved Five-Year Plan to the General Rate Case-Approved Plan

Q: How did the five-year business plan intersect with the general rate case filing?

A. The five-year business plan and the general rate case processes remained distinct processes in 2021. However, due to the timing of the rate case filing, the five-year business plan process and the information gathering process for the general rate case filing, while not being integrated with each other, were more closely aligned from a calendar standpoint than in previous filings. This timing created the expectation that processes would produce identical results.

To address this expectation, after the Board of Directors approved the five-year business plan in November 2021, the FP&A team collaborated with PSE's regulatory team to identify any variances between the results of the two processes at an enterprise level and reconciled accordingly.

This analysis indicated that the drivers of the variances were ultimately due to changes in the assumptions that were used to support each process. In other

words, in the intervening time between when assumptions used for five-year business plan purposes were provided and when assumptions were collected for rate case purposes, for some investments, those assumptions changed. The causes of those changes are typical in the industry and include actual performance, updated plans, and other factors such as storms, contract negotiations, resource availability, to name a few. These factors dictate that PSE's plans, both at the individual investment level and at the enterprise level, be malleable so the Company can deal with changing factors and assumptions and continue to prioritize investments to best benefit customers and stakeholders.

For example, the Baker River Hydro project assumptions were not solidified until late 2021, well after the five-year business plan was effectively completed. Please refer to PSE witness Ryan P. Blood's testimony, Exh. RPB-1T, for a more comprehensive discussion of the Baker River Hydro project. In addition, another large capital investment relates to the Energize Eastside project, which likewise underwent assumption changes over the course of 2021 due to protracted permitting processes. Please refer to PSE witness Dan'l R. Koch's testimony, Exh. DRK-1T, for a more comprehensive discussion of the Energize Eastside project.

Q: What are your conclusions regarding the relationship between the current five-year plan and the rate case filing?

A straightforward way to understand the relationship between the five-year business plan and the general rate case filing is to recognize that the underlying investment assumptions in the five-year business plan were made months before its formal approval by the Board of Directors and several more months before the gathering of information for rate case purposes. Therefore, these two distinct processes should not necessarily produce identical results on an investment-by-investment basis since the rate case filing reflects the most current information.

Q: When will the current five-year plan next be reviewed and updated?

A. The current five-year plan will be formally updated and approved by PSE's Board of Directors before the first year of the multiyear rate plan begins.

IV. PSE'S APPROACH TO MANAGING VARIANCES BETWEEN ACTUAL AND BUDGETED SPENDING IS ROBUST AND EFFECTIVE

Q. How does PSE track actual expenses for individual capital projects?

A. Actual expenses are recorded using a work order. Work orders are the mechanism used to record expenses at a cost element level. The systematic assignment of work orders to a WBS prevents actual expenses incurred from being misapplied to an incorrect WBS. The WBS concept allows for tracking of dollars for budgeted work versus actual work.

Q. Please provide an overview of PSE systems and processes for managing variances between actual versus budget and actual versus forecasted financial results on an intra-calendar year basis.

A. There are several components to PSE's approach, which I will explain below, but at a high-level, PSE employs a process in which actual versus budgeted results are reviewed and analyzed at the end of every month throughout any given calendar year. This review and analysis focus on both cumulative year-to-date variances and on monthly variances for the last month in the cumulative year to date period. In general, cost center managers review and analyze their individual variances for O&M and capital expenditures, and the FP&A team reviews and analyzes variances related to electric and gas margins, load forecasts, depreciation and amortization expense, interest expense, tax expense, and other items included in the corporate center, such as overhead expenses, storm costs, and employee benefits, among others.

Q. How often are these reviews performed?

A. These reviews are performed on a monthly basis throughout the calendar year. PSE closes its books generally within four days after each calendar month end making financial results available for the prior month and on a cumulative year-to-date basis. The analysis and review that I described above generally commences on the fifth day after the close of the books for the prior calendar month.

Q. What is the purpose of these reviews and analyses?

A. As I mentioned above, there are many exogenous factors that will always create variances between actual and budgeted results. It is important to understand the source of these variances and the impacts they impose on PSE's overall operational and financial plans for any given calendar year. This is important not only for O&M and capital expenditures, but for all other components of PSE's financial profile, e.g., electric and gas margins, depreciation and amortization expense, to name a few. Without a complete and detailed review of all variances impacting PSE's operational and financial performance, it would be virtually impossible to understand and react to the exogenous factors that continuously impact PSE during any calendar year.

Q. What happens next?

A. Once cost center managers have reviewed and analyzed their individual variances for O&M and capital expenditures and the FP&A team has reviewed and analyzed the type of variances that I outlined above, the organization shifts its efforts to determine how cumulative year-to-date budget to actual variances will impact PSE's operational and financial performance plans for the remainder of the year. Cost center managers will prepare revised operational and financial forecasts for the remainder of the year, and the FP&A does the same for the financial components under its purview, as well. All this information is aggregated and

rolled up into a complete corporate operational and financial perspective for further review and analysis.

Q. How is this corporate operational and financial perspective reviewed and analyzed?

A. There are three basic components to this process. First, at approximately the end of the third week in every month of the calendar year, the FP&A team holds what is called an "Outlook" meeting which is broadly attended by PSE's managerial leadership team. During this meeting, PSE's managerial leadership team is briefed on the current status of PSE's operational and financial performance results including, a review of cumulative year-to-date actual versus budget variances and a review of forecast versus budget variances for the calendar year. It is important to note that "forecast" is defined as cumulative year to date actual results plus revised forecasted results for the remainder of the year.

Next, PSE's senior management team receives and reviews the operational and financial information covered in each Outlook meeting. To the extent that material deviations from plan are encountered, the officers will be briefed and have ample opportunity for input into the Outlook process. Last, after all of the above has taken place, the full Board of Directors is briefed monthly on the status of PSE's operational and financial performance on an actual cumulative year-to-date basis and on a forecasted basis for the remainder of the year.

Q. What is the Director Budget Committee and what role does it play in the monthly review process?

A. The Director Budget Committee is a cross functional director committee that works directly with finance and senior leadership to administer the monthly forecasting process to meet their stated objective to achieve PSE's operational and financial plans for each calendar year. The committee is responsible for evaluating and making material reprioritization decisions and performing due diligence in accordance with PSE's governance, processes, and procedures so that recommendations to senior leadership are comprehensive and complete. While monthly reforecasting processes administered at the cost center and project level are robust, there are frequently exceptions that result from unique circumstances as outlined above that require cross functional or enterprise level resolution, which the Director Budget Committee is uniquely positioned to address. These exceptions are managed in the context of achieving PSE's operational and financial objectives.

Q. How are changes to calendar year budgets made and authorized?

A. This can happen in two ways. First, any time that PSE is impacted by exogenous business events or circumstances, such as a major storm, power or gas cost spikes, and the like, the PSE's senior leadership team will be notified immediately. To the extent that PSE's senior leadership team determines that action should be taken to maintain and optimize operational and financial performance for the

remainder of the calendar year, PSE senior leadership team will authorize those actions, which will be subsequently communicated to the full Board of Directors. This is the exception rather than the rule.

The second way changes to calendar year budgets are made and authorized is through what is called PSE's 5&7 deep dive exercise. Assuming that there has been no material exogenous impact or shock to PSE's operational and financial plans during the first four months of the year, no changes to authorized budgeted plans will be made. The reason for this is that cumulative year-to-date actual versus budget variances work in both ways and often offset one another within the bounds of materiality in the context of PSE's calendar year operational and financial plans. In these circumstances there is no need to make or authorize any change to budgeted plans. That said, every calendar year, in connection with the 5&7 deep dive, cumulative year-to-date actual versus budget variances are scrutinized in detail. To the extent that overspent variances cannot be mitigated and under spent variances will remain during the remainder of the calendar year, changes to budgets will be made and authorized and appropriately reflected in forecasted results for the remainder of the calendar year. This process is conducted to reset budgets, having the benefit of five months of cumulative year-to-date actual versus budget results and only seven months to forecast for the remainder of the calendar year. The focus of this process is to maximize PSE's operational and financial performance for any given calendar year. It is an

important part of PSE's overall operational and financial control framework and it has served PSE very well over time.

Q. How does the financial management process allow PSE to meet emergent, high priority needs without a material disruption in customer experience?

A. The capital allocation process funds the highest priority needs of the business and customers annually and over the near-term financial planning horizon. For example, consider a major storm that causes $100 million in damages to utility facilities and equipment. Restoration expenses must be funded immediately to restore service, which will require adjustment to the remainder of the O&M and capital budget due to the diversion of labor resources away from planned work. Consequently, some budgeted work will not be completed during the fiscal year, all else being equal. Adjustments to budgets may include postponement and deferral of lower priority expenditures into the future. This would have been exactly what would have occurred had the storm been anticipated in the budget in the first place, i.e., storm restoration would have displaced lower priority expenditures in the development of the budgeted O&M and capital expenditures, all else being equal.

V. PSE'S HISTORICAL ABILITY TO MANAGE CAPITAL AND OPERATIONS SPENDING

A. PSE Has a Strong History of Accurately Forecasting Spending

Q. Has PSE's spending on capital and O&M in recent years tracked closely to budgets?

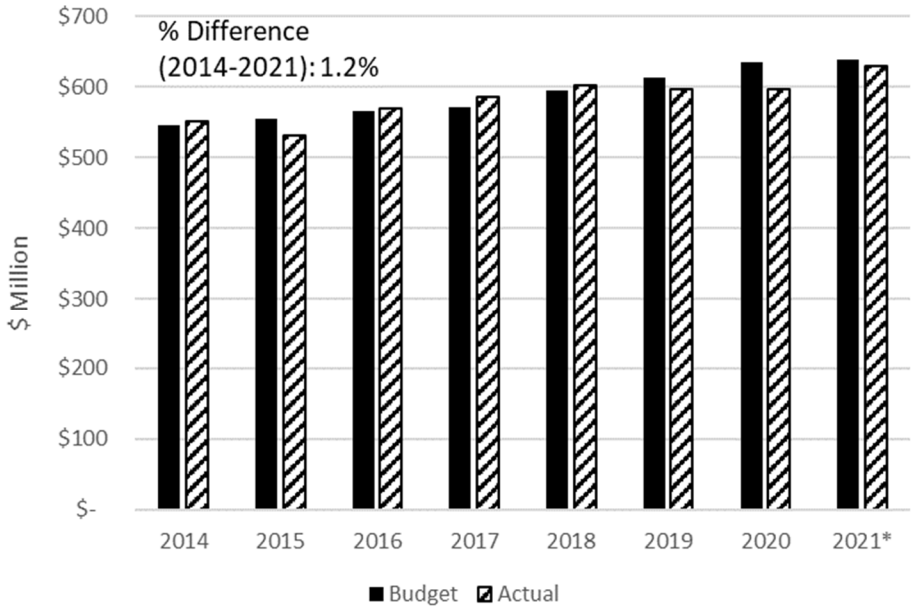
A. Yes. PSE has a strong record of cost control performance, which has resulted in actual spending closely tracking to budgeted/forecasted levels. However, as I have discussed, events arise in nearly every year that require PSE to commit resources to emergent, higher priority needs, which results in reprioritization of capital and O&M spending. This may occasionally require that certain projects in the approved budgets be deferred while higher priority needs are addressed.

As I have explained, PSE's approach to financial management is designed to accommodate these events. Even as it has had to pivot at various points to address exigent circumstances, PSE has managed to control spending to within the budgeted caps established through our planning processes.

Q. Please elaborate on PSE's ability to manage to capital and O&M budgets in the past five years.

A. Figure 1 illustrates that PSE has a strong track record when comparing PSE's Board-approved budgeted to actual capital expenditures over the period 2014-2021.[5]

Figure 1: PSE Budget and Actual O&M Expenditures (Electric and Gas Combined, 2014-2021)

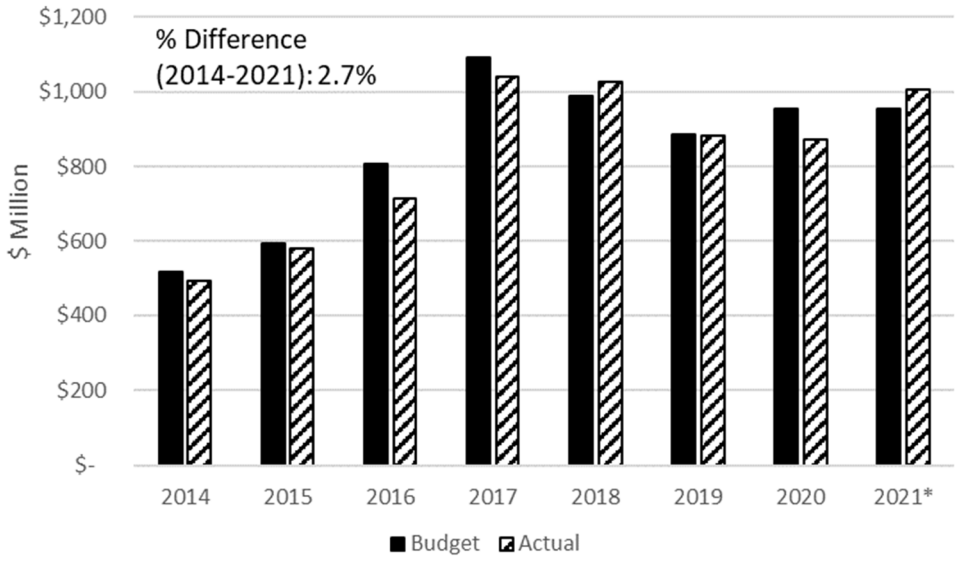


As shown in Figure 1 and Exh. JAK-3, from 2014 to 2021, actual O&M spending has deviated by only 1.2 percent of budgeted levels, with four years having slightly higher O&M expenditures than budgeted and four years having slightly lower O&M expenditures than budgeted.

[5] 2021 in the following Figures are based on PSE's 7 & 5 forecast.

Figure 2 provides a comparison of actual performance relative to budgets for capital expenditures for the same period. As shown below and in Exh. JAK-3, actual capital expenditures have been within 2.7 percent of budgeted expenditures on a cumulative basis over the period 2014-2021 reflecting PSE's strong capital governance and project management policies and procedures.

Figure 2: PSE Actual Capital Expenditures (2014-2021)



B. PSE Aggressively Manages its Spending

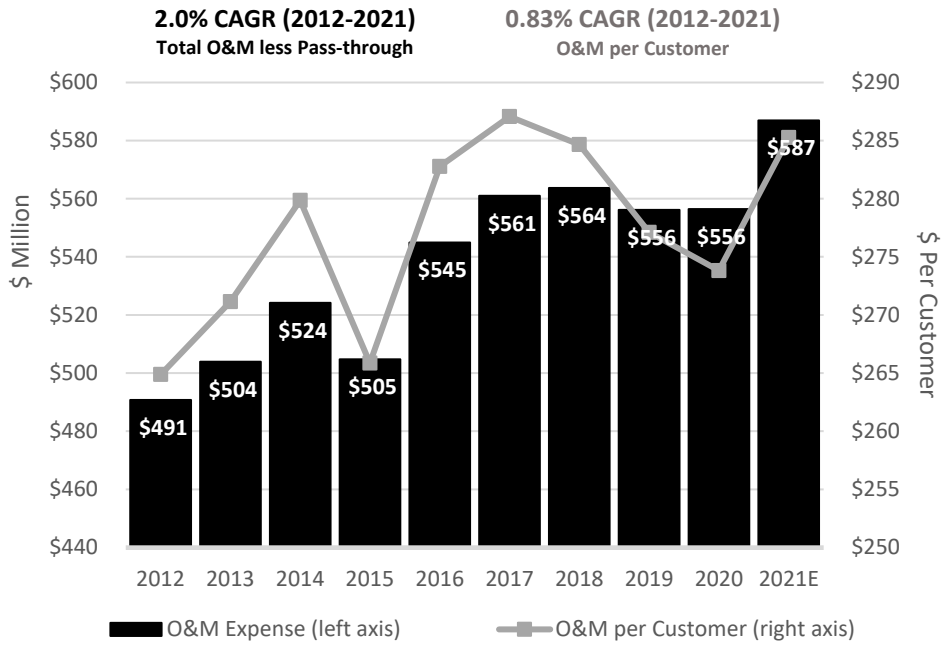
Q. What actions has PSE taken to manage O&M expenditures?

A. PSE uses a broad-based approach to manage operating expenditures.

As a general guideline, growth in budgets and spending are targeted at the rate of customer growth, which has been approximately 1.17 percent for gas and electric combined from 2012-2021. As illustrated in Figure 3, PSE has effectively

managed the growth of O&M expense per customer (excluding pass-through items such as low income and Commission fees) to an annual average increase of 0.83 percent compound average growth rate during the 2012-2021 period, which is under the average annual rate of inflation of 2.33[6] percent and the customer growth rate. Additionally, PSE's growth in O&M expenses net of pass-throughs has under-paced inflation in absolute terms over the past ten years.

Figure 3: PSE's Growth in O&M Costs, 2012 – 2021[7]



Q. What does this small 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

[6] U.S. Bureau of Labor Statistics, January 2012 through November 2021. https://www.bls.gov/data/inflation_calculator.htm

[7] See Exh. JAK-4.

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.

VI. CONCLUSION

Q. Does this conclude your prefiled direct testimony?

A. Yes, it does.