

**EXH. KJB-1T
DOCKETS UE-18___/UG-18___
PSE EXPEDITED RATE FILING
WITNESS: KATHERINE J. BARNARD**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of:

PUGET SOUND ENERGY

Expedited Rate Filing

**Docket UE-18___
Docket UG-18___**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

KATHERINE J. BARNARD

ON BEHALF OF PUGET SOUND ENERGY

JUNE 15, 2018

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PUGET SOUND ENERGY
PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
KATHERINE J. BARNARD

CONTENTS

I. INTRODUCTION 1
II. OVERVIEW OF THE EXPEDITED RATE FILING 1
III. INTRODUCTION OF COMPANY WITNESSES 11
IV. CONCLUSION 12

1

2

LIST OF EXHIBITS

3

Exh. KJB-2 Summary of Qualifications

4

Exh. KJB-3 Exhibit I to the Multiparty Settlement Stipulation approved in WUTC
5 Dockets UE-170033 and UG-170034

6

Exh. KJB-4 Proposed Procedural Calendar

1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **KATHERINE J. BARNARD**

4 **I. INTRODUCTION**

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

7 A. My name is Katherine J. Barnard. My business address is 10885 N.E. Fourth
8 Street Bellevue, WA 98004. I am the Director, Revenue Requirements and
9 Regulatory Compliance for Puget Sound Energy (“PSE” or the “Company”).

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

12 A. Yes. It is Exh. KJB-2.

13 **Q. What is the purpose of your testimony?**

14 A. My testimony provides the background leading up to the filing of this expedited
15 rate filing (“ERF”) and an overview of this filing. My testimony also discusses an
16 update to PSE’s cost of debt that has been incorporated into this filing.

17 **II. OVERVIEW OF THE EXPEDITED RATE FILING**

18 **Q. What is the basis for the expedited rate filing presented in this case?**

19 A. In PSE’s 2017 general rate case filed in Dockets UE-170033 and UG-170034
20 (“2017 general rate case”), PSE requested the Commission formalize procedures
21 for an expedited rate filing. Ultimately, the majority of the parties entered into a
22 multiparty settlement stipulation (“2017 Settlement Agreement”) and the settling

1 parties agreed that PSE may file one ERF that is consistent with the process and
2 procedures used by the Commission in Dockets UE-130137 and UG-130138 and
3 the parameters identified in Exhibit I to the 2017 Settlement Agreement, a copy of
4 which is included in Exh. KJB-3.

5 **Q. Why is an expedited rate filing necessary?**

6 A. An expedited rate filing is necessary to update PSE's rates and allow PSE the
7 opportunity to earn its authorized rate of return. Due to Washington's approach to
8 ratemaking, which uses a modified historical test period and limited use of pro
9 forma adjustments, the rates established in PSE's general rate case can be stale by
10 the time they are implemented. For example, the rates established in PSE's 2017
11 general rate case became effective approximately 15 months following the end of
12 the test year on which the rates were based. Therefore, PSE's expenses and rate
13 base can exceed the revenue levels established in the general rate case and be
14 insufficient to allow PSE the opportunity to earn its authorized rate of return at the
15 time those new rates become effective due to the 15-month lag time in
16 implementing rates. Additionally, because rate base was measured on an average
17 of monthly average ("AMA") basis in PSE's 2017 general rate case, assets placed
18 in service near the end of the test year were only partially reflected in the test year
19 balances. The ERF provides for a limited update to non-production costs utilizing
20 the Commission's preferred historical ratemaking approach with only known and
21 measurable costs, granted on a simplified and expedited basis.

1 **Q. Has the Commission encouraged utilities to consider expedited rate filings?**

2 A. Yes. Staff first proposed an ERF-like filing in PSE’s 2011 general rate case, and
3 the Commission stated it “appreciate(s) Staff’s willingness to bring forward the
4 outline of a proposed process mechanism to help address the particular problems
5 associated with PSE’s current position in a cycle of capital investment.”¹ The
6 Commission stated that it would give fair consideration to a PSE filing along the
7 lines Staff suggested in that case. Additionally, the Commission stated it “would
8 be particularly interested in proposals that might break the current pattern of
9 almost continuous rate cases.”² Consistent with this direction from the
10 Commission and Commission Staff, PSE filed an ERF in 2013.

11 The Commission has also discussed ERF as an option in other cases, including a
12 recent Avista general rate case in which the Commission referenced positively the
13 use of ERFs to update rates between general rate case filings to break the pattern
14 of annual general rate case filings.³

15 Most recently, in the final order of PSE’s 2017 general rate case the Commission
16 “agree(d) with the guidance offered by the settlement stipulation”⁴ addressing the
17 ERF, and authorized PSE to file this case. Furthermore, the Commission
18 “require(d) that PSE and other parties follow the limits agreed to in the Settlement

¹ *WUTC v. PSE*, Dockets UE-111048 & UG-111049, Order 08 ¶ 506 (May 7, 2012).

² *Id.* ¶¶ 506-07.

³ *WUTC v. Avista Corp.*, Dockets UE-160228 & UG-160229, Order 07 ¶¶ 76-77
(December 15, 2016).

⁴ *WUTC v. PSE*, Dockets UE-170033 & UG-170034, Order 8 ¶ 221 (Dec. 5, 2017).

1 Stipulation for such a proceeding if filed within 12 months following the rate
2 effective date of PSE's compliance filing"⁵.

3 **Q. Is PSE's ERF consistent with the approach outlined in the 2017 Settlement**
4 **Agreement?**

5 A. Yes. As shown in Exh. KJB-3, the 2017 Settlement Agreement set forth the
6 following parameters for the ERF, which PSE has followed in this filing:

- 7 • The ERF is based on a commission basis report ("CBR") developed for a
8 recently completed accounting period consistent with the approach defined in
9 WAC 480-90-257 and WAC 480-100-257.
- 10 • The ERF is based only on restating adjustments most recently approved by the
11 Commission with the following two exceptions:
 - 12 (i) Use of end of period rate base is acceptable.
 - 13 (ii) Annualization of any revenues that occurred after the test
14 period and annualization of the underlying costs associated
15 with those revenues to the extent not fully included in the
16 test year results. This is necessary to maintain proper
17 matching of the annualized revenue and expenses.
- 18 • The ERF removes power costs, purchased gas, and gas pipeline cost recovery
19 mechanism related revenues, rate base and expenses leaving only
20 transmission, distribution and administration and general costs and rate base
21 that will be used to determine the electric and natural gas revenue
22 requirements to be considered in the expedited rate filing.
- 23 • The ERF maintains the rate of return established in the most recent general
24 rate case except to update the interest rate on debt if needed.
- 25 • The ERF will not include changes to rate spread or rate design from the most
26 recently filed general rate case.
- 27 • The ERF schedule would allow rates to take effect within 120 calendar days
28 after filing.

29 PSE has incorporated all these principles into this filing.

⁵ *Id.* ¶ 221.

1 **Q. Please explain how PSE has incorporated the principles from the 2017**
2 **Settlement Agreement.**

3 A. The Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1T, describes the
4 process by which PSE incorporated the principles from the 2017 Settlement
5 Agreement into this filing. She discusses the manner in which PSE prepared
6 commission basis reports for this filing, the segregation of costs to address only
7 those costs to be included in an expedited rate filing, and the annualization of
8 revenues and underlying costs from the 2017 general rate case. Additionally, as
9 discussed later in my testimony, the Company incorporated the changes in the
10 cost of debt, lowering the overall rate of return.

11 **Q. Why does PSE need rate relief so soon after setting rates in its 2017 general**
12 **rate case?**

13 A. As I discussed previously, increases in rate base and expenses are outpacing
14 increases in PSE's revenues. Overall, PSE's rate base has grown by approximately
15 \$296 million since the test period used in PSE's last general rate case, and a
16 significant portion of the investment is in non-revenue producing plant that will
17 create earnings erosion until included in customers' rates. The following provides
18 an overview of items impacting the revenue deficiency:

- 19 (i) In order to provide customers with information on platforms that are
20 expected in today's rapidly changing technology environment as well
21 as update its existing internal accounting and reporting systems, PSE
22 has invested in its Information Technology ("IT") infrastructure at an
23 increased pace. PSE has made significant investment to its IT

1 infrastructure to improve system resiliency including the addition of
2 two highly available modular data centers, a \$67.7 million investment.
3 This IT investment is a contributor to the rate base return discussed
4 above. PSE's IT investments also helped contribute to the additional
5 \$16 million of amortization, of which \$9 million is for electric and \$7
6 million is for gas. Additionally, maintenance of the expanded IT
7 infrastructure contributed \$13 million toward the combined increase.

8 (ii) PSE has made investments to improve electric reliability at a rate that
9 exceeds historical levels of plant replacement. For example, PSE's
10 cable remediation program, which was discussed in the 2017 general
11 rate case as part of the proposed electric cost recovery mechanism,
12 accounts for nearly \$60 million of the total increase in plant in service.
13 Additionally, PSE invested close to \$75 million in substation
14 improvements, completed its Pierce 230 transmission upgrades
15 (approximately \$35 million), and installed approximately \$27 million
16 in tree wire, since the 2017 general rate case test year. This increased
17 level of electric investment contributed toward the \$225 million of
18 increased rate base reflected in this filing, on which PSE earns a return
19 and accrues depreciation expense.

1 (iii) Similarly, on the gas side, growth in gas plant since the prior rate case
2 resulted in increased rate base of \$71.6 million on which PSE earns a
3 return and accrues depreciation expense. This is gas plant that is not
4 included in PSE's gas cost recovery mechanism. Since completion of
5 the general rate case test year, PSE has invested in more than \$85
6 million in mains and services, \$12.4 million in public improvement
7 work and \$9.8 million in reinforcement projects.

8 (iv) Growth in revenues from the increase in test year billing determinants
9 of \$11 million for electric and \$15 million for gas along with the
10 impacts associated with the lower cost of debt (\$6.1 million) have only
11 partially offset the cost and rate base increases discussed above.

12 **Q. What is the timing of the proposed rate change?**

13 A. The settling parties in PSE's 2017 Settlement Agreement agreed to a schedule for
14 the ERF that would allow rates to become effective within 120 days after the
15 filing date. To facilitate this expedited timeline, PSE requests that the
16 Commission immediately suspend the filing and set a prehearing conference date.
17 Further, in recognition of the Commission order accepting the 2017 Settlement
18 Agreement, to facilitate the parties' review and to limit the need for discovery,
19 PSE has provided the detailed workpapers to all parties, which transparently lay
20 out each adjustment.⁶ To facilitate review, PSE has also included in its work
21 papers the monthly detail of its income statements and property additions since

⁶ See *WUTC v. PSE*, Dockets UE-170033 & UG-170034, Order 8 ¶ 221 (Dec. 5, 2017).

1 the conclusion of the 2017 general rate case, which will provide parties more
2 detailed information than is typically included in a rate filing. Ms. Free's
3 testimony provides a detailed explanation demonstrating that each adjustment is
4 simply an update of the adjustment included in the 2017 general rate case and
5 calculated consistent with the methodology approved in the general rate case.
6 Finally, in Exh. KJB-4, PSE has proposed a procedural schedule consistent with
7 the timing agreed to by the settling parties in the 2017 general rate case. This
8 schedule is also aligned with the procedural schedule utilized in the 2013 ERF.

9 **Q. Please summarize PSE's rate request in this case.**

10 A. PSE requests a rate increase for electric customers of \$41.2 million, which is an
11 average 2.0 percent increase over the electric rates set in the Company's 2017
12 general rate case, Docket UE-180282 (Tax Reform Update). PSE requests a rate
13 increase for natural gas customers of \$23.2 million, which is an average 2.6
14 percent increase over the natural gas rates set in PSE's 2017 general rate case,
15 Docket UG-180283 (Tax Reform Update).

16 **Q. What rate of return was used to determine the revenue deficiency?**

17 A. PSE used a rate of return of 7.49 percent to determine the revenue deficiency.
18 The 7.49 percent is based on the authorized rate of return of 7.60 percent as
19 determined in Order 08 in Dockets UE-170033 and UG-170034, updated to
20 reflect a lower cost of debt. Both the capital structure and the return on equity
21 component are unchanged from the levels approved in the 2017 general rate case.

1 **Q. Please explain the change in the cost of debt since the 2017 general rate case.**

2 A. The changes to PSE's cost of debt reflect the recent issuance of \$600 million of
3 senior notes, the proceeds of which will be used (i) to refinance \$250 million of
4 2067 junior subordinated notes, (ii) to redeem \$200 million of senior notes that
5 mature in June, (iii) to pay down short-term debt, and (iv) for general corporate
6 purposes. These changes are estimated to result in a reduction of PSE's weighted
7 cost of debt by 11 basis points and result in a revised overall cost of capital of
8 7.49 percent. PSE has incorporated this updated overall cost of capital into this
9 filing for purposes of calculating the ERF revenue deficiency. Finally, PSE
10 believes that the capital structure is not something that can be changed in an ERF;
11 however, it is worth noting that the above debt transactions do not alter PSE's
12 expected total overall debt percentage from amounts authorized in the 2017
13 general rate case.

14 **Q. Is PSE's rate base reflected at the end of the test period values?**

15 A. Yes. As part of the 2017 Settlement Agreement, the settling parties agreed that
16 rate base may be reflected at end of period values in the 2018 ERF. Reflecting
17 rate base at end of period values helps to alleviate some of the regulatory lag
18 experienced on rate base.

19 **Q. Why is the use of end of period rate base appropriate in this ERF?**

20 A. The use of end of period rate base is a tool the Commission continues to
21 recognize as a useful means to address regulatory lag particularly when plant
22 balances are increasing at a faster rate than operating income, which happens

1 during periods of increased investments and low load growth. An ERF is limited
2 in nature and does not allow for pro forma adjustments; therefore, the use of end
3 of period test year balances becomes even more critical if the Company is to have
4 the opportunity to earn its authorized rate of return on those investments in the
5 rate year. Additionally, the end of period rate base balances are more
6 representative of the rate base balances that will be in effect during the rate year.
7 The use of AMA balances will understate the rate base that will be in effect
8 during the rate year. For example, if the Commission were to utilize AMA for
9 this test period versus the end of period balances as presented in this case, over
10 \$186 million of electric rate base that is in service and providing benefits to
11 customers would be excluded from rates. Similarly, the use of AMA as opposed
12 to end of period rate base would result in nearly \$60.2 million of natural gas rate
13 base being excluded in this case. If AMA was used rather than end of period, the
14 next opportunity for inclusion of these assets fully in rate base would be a future
15 general rate case creating a minimum of an additional 15 months of regulatory
16 lag.

17 **Q. Has the Commission supported the use of end of period rate base?**

18 A. Yes. In Order 08 in Dockets UE-111048 and UG-111049, the Commission stated
19 that it is open to measuring rate base “at the end, or subsequent to the end of the
20 test-year rather than the test-year average.”⁷ Additionally, in Avista’s 2016
21 general rate case, the Commission identified end of period rate base as one
22 available component of the “hybrid test year” process followed by the

⁷ See *WUTC v. PSE*, Dockets UE-111048 & UG-111049, Order 08 ¶ 491 (May 7, 2011).

1 Commission,⁸ and the Commission authorized the use of end of period rate base
2 for Avista in the 2017 general rate case.⁹ Furthermore, the Commission in PSE's
3 2017 general rate case reiterated that end of period rate base was among the tools
4 the Commission has adopted to avoid the 27 month regulatory lag that often
5 occurs through traditional AMA historical ratemaking.¹⁰

6 III. INTRODUCTION OF COMPANY WITNESSES

7 **Q. Would you please describe the other Company witnesses and the topics they**
8 **will present?**

9 A. Yes. PSE witness Ms. Susan E. Free presents the ERF electric and natural gas
10 revenue requirement and underlying commission basis reports for the 12 months
11 ending March 31, 2018. Mr. Jon A. Piliaris will discuss:

- 12 (i) the calculation of the revenues at present rates used to drive the revenue
13 deficiencies using weather normalized billing determinant;
- 14 (ii) the proposed rate spread and rate design for the recovery of a substantial portion
15 of the revenue deficiencies;
- 16 (iii) and the corresponding updates to the allowed revenue per customer calculations
17 used in the decoupling mechanism.

⁸ See *WUTC v. Avista*, Dockets UE-160228 & UG-160229, Order 06 ¶ 82 (Dec. 15, 2016).

⁹ See *WUTC v. Avista*, Dockets UE-170485 & UG-170486, Order 07 ¶ 203 (April 26, 2018).

¹⁰ See *WUTC v. PSE*, Dockets UE-170033 & UG-170034, Order 08 ¶ 326 (Dec. 5, 2017).

1 **IV. CONCLUSION**

2 **Q. Does this conclude your testimony?**

3 **A. Yes, it does.**