EXH. KJB-10T
DOCKETS UE-170033/UG-170034
2017 PSE GENERAL RATE CASE
WITNESS: KATHERINE J. BARNARD

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-170033** **Docket UG-170034**

PREFILED SUPPLEMENTAL DIRECT TESTIMONY
(NONCONFIDENTIAL) OF

KATHERINE J. BARNARD

ON BEHALF OF PUGET SOUND ENERGY

APRIL 3, 2017

PUGET SOUND ENERGY

PREFILED SUPPLEMENTAL DIRECT TESTIMONY (NONCONFIDENTIAL) OF KATHERINE J. BARNARD

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PUGET SOUND ENERGY

PREFILED SUPPLEMENTAL DIRECT TESTIMONY (NONCONFIDENTIAL) OF KATHERINE J. BARNARD

I. INTRODUCTION

Q. Are you the same Katherine J. Barnard who provided prefiled direct testimony in these dockets on behalf of Puget Sound Energy, Inc. ("PSE")?

A. Yes, I filed prefiled direct testimony, Exh. KJB-1T and eight supporting exhibits (Exh. KJB-2 through Exh. KJB-9). I sponsor the following exhibits in support of this prefiled supplemental direct testimony: Exh. KJB-11 through Exh. KJB-16.

Q. What topics are you covering in your prefiled supplemental direct testimony?

A. This prefiled supplemental direct testimony presents the update to the power cost pro forma adjustment that result from the update to power costs presented by Mr. Wetherbee. My testimony also presents other updates that were discussed in my prefiled direct testimony as well as in the Prefiled Direct Testimony of Ms. Susan E. Free, Exh. SEF-1T. I will also provide updated exhibits that are impacted as a result of these changes.

These changes to the electric pro forma and restating adjustments result in a reduction of $5,029,920 to PSE’s total electric base rate revenue deficiency, from the $149,061,986, set forth in PSE’s January 13, 2017 filing to $144,032,066 in this supplemental filing. Firm Resale and Large Firm Wholesale customers are allocated $405,143 of this deficiency. The remaining $143,626,923 of the electric base rate revenue deficiency represents an average increase of 7.3 percent in base rates (or gross increase to retail sales customers), which is lower than the 7.6 percent increase in base rates requested in PSE's January 13, 2017 filing.

Finally, I will present the PCA Baseline Rate that would result from a lowering of power costs and load that would occur at the time Microsoft begins taking retail wheeling service from PSE. The circumstances surrounding this possibility are discussed in more detail in the prefiled direct and supplemental testimonies of Mr. Jon A. Piliaris, Exh. JAP-1T and Exh. JAP-34T. As will be shown later in my testimony, with the loss of Microsoft’s load, PSE’s PCA Baseline Rate is projected to increase from $60.759 per MWh to $61.448 per MWh. The fixed component increased from $26.748 per MWh to $27.329 per MWh and the variable component increased from $34.011 per MWh to $34.119 per MWh. In consideration of the fact that PSE’s customers will be receiving rate relief from Microsoft’s stranded cost payment immediately after Microsoft begins taking retail wheeling service, PSE is also proposing to concurrently reflect the higher power costs in customer rates. Doing so helps to preserve the matching of the basis upon which the stranded cost payment was calculated (i.e., higher power costs) with the beneficiaries of this payment (i.e., remaining PSE customers). Absent an immediate change in bundled electric retail rates to reflect the higher PCA Baseline Rate, PSE’s shareholders are potentially left to incur the difference without also being compensated. Accordingly, PSE is requesting that the variable portion of the PCA Baseline Rate be updated in Schedule 95 to the rate that reflects the absence of Microsoft at the time that Microsoft takes retail wheeling service pursuant to a special contract ("Contingent PCA Baseline Rate"). Additionally, Schedule 142 would be updated to reflect the higher revenue per customer necessary to cover PSE's fixed production costs. Finally, Schedule 95[1] would be updated to include the stranded cost payment to be passed back to remaining customers. Therefore, the information necessary to calculate the above changes will be known or can be calculated at the time of PSE's compliance filing in this proceeding, and so will be available for approval at that time. Providing the information now in this supplemental filing provides for the opportunity and time to review the type of information used to calculate the rate changes and will allow for appropriate expedited setting of Schedule 95 and Schedule 142 rates at the time Microsoft takes retail wheeling service pursuant to a special contract.

II. UPDATE TO REVENUE REQUIREMENT

Q. Please provide a description of the changes that occurred since the original filing and their impacts on the electric base rate revenue deficiency.

A. Exh. KJB-11 presents similar information to Exh. KJB-3 in this proceeding, after being updated for the revisions as described later in this prefiled supplemental direct testimony. Only page one of this exhibit has changed since the original filing. The overall electric base rate revenue requirement deficiency is shown on page one of Exh. KJB-11. The schedule shows the test period pro forma and

[1] In his prefiled supplemental direct testimony, Mr. Piliaris discusses an alternative of including the stranded cost payment in Schedule 95 instead of Schedule 137 as was originally recommended in his prefiled direct testimony.

restated rate base, line 1, rate of return, line 2, operating income requirement, line 4 and base rates revenue requirement deficiency, line 13.

Based on $5,097,747,770 invested in rate base, a 7.74% rate of return and $305,402,483 of pro forma base rate operating income, PSE has an overall base rate revenue requirement deficiency for electric revenues of $144,032,066. After allocation to wholesale and special contract customers, the electric base rate revenue requirement deficiency attributable to retail customers is $143,626,923.

Q. Please describe Exh. KJB-12.

A. Exh. KJB-12 presents similar information to Exh. KJB-4 in this proceeding, after being updated for the revisions as described later in this prefiled supplemental direct testimony. The first page of Exh. KJB-12, shows the calculation of the electric base rate deficiency. This page presents the unadjusted operating electric income statement and average of monthly averages ("AMA") rate base for PSE as of September 30, 2016 (the test year) in the column labeled Actual Results of Operations. The various line items are then adjusted by the summarized pro forma and restating adjustments, shown in the third column, “Total Adjustments”. The fourth column is the adjusted results of operations for the test period, and this column is used to calculate the electric base rate revenue deficiency. In the second to last column, the electric base rate revenue deficiency is added to the adjusted test period income statement, and the impact on the net operating income and rate base is presented in the final column, which shows that the net operating income divided by the test period rate base results in the requested rate of return.

Pages two through six of this exhibit present a summary schedule for all of the pro forma and restating adjustments. The first column of numbers on page two is the unadjusted net operating income and rate base for the test year. Each column to the right of the first column represents a pro forma or restating adjustment to net operating income or rate base. For the adjustments that have changed since the January 13, 2017 filing, the columns have been marked as "REVISED". Each of these adjustments has a supporting schedule, which is referenced by the exhibit number and page number shown in each column title.

The second to the last column titled "Total Adjustments", shown on page six of the exhibit, summarizes all of the adjustments. The final column presents the adjusted test period results, which are the basis for calculating the electric base rate revenue deficiency.

Q. Please explain Exh. KJB-13 and Exh. KJB-14.

A. All pages in Exh. KJB-13 are the supporting schedules for the updated adjustments that are common between electric and natural gas operations, and all pages in Exh. KJB-14 are the updated supporting schedules for adjustments directly related to electric operations. These are similar to Exh. KJB-6 and Exh. KJB-7 in my prefiled direct testimony and exhibits.[2]

[2] Exh. KJB-5, which presented the test year financial statements, has not changed since the original filing.

Q. Have you prepared a reconciliation between the electric base rate revenue deficiency filed in January 2017 and the electric base rate revenue deficiency filed in this supplemental filing?

A. Yes. The following table shows the impact of each of the revised pro forma and restating adjustments.

Description	Revenue Deficiency (million)
As filed January 13, 2017	$ 149.1
14.01 Power Cost	(7.7)
14.05 Storm	2.7
All Other Adjustments	(0.1)
Updated Revenue Deficiency	$ 144.0

III. INDIVIDUAL ADJUSTMENTS

A. Exh. KJB-13 Common Adjustments

Q. Please explain the changes that were made to the adjustments that are common to electric and gas operations.

A. The following is a description of the changes made to the adjustments that are common to electric and gas operations:

Adjustment No. 13.05 Tax Benefit of Proforma Interest: KJB-13, page 5

The first adjustment that has changed since the January 13, 2017 filing is the Tax Benefit of Proforma Interest, which only changed due to the changes to rate base resulting from Adjustment No. 14.11 White River, which also changes Adjustment 14.13 Production Adjustment. I describe the changes to White River in more detail later in my testimony. This adjustment now increases net operating income by $53,347,930.

Adjustment No. 13.08 Bad Debt Expense: KJB-13, page 8

During discussions with Commission Staff, it was discovered that the bad debt expense adjustment contained an error that is being corrected in this supplemental filing. This adjustment was originally presented on page eight of Exh. KJB-6. On line eight of the original bad debt expense adjustment, the restated bad debt percentage was erroneously applied to the revenues that were added for the temperature normalization adjustment. As the restated bad debt percentage had already been applied to these revenues in Adjustment No. 6.02 Temperature Normalization, which was shown on line thirty two on page two of Exh. KJB-6, this part of Adjustment No. 6.08 represented a double count of expenses. Accordingly, Adjustment 13.08 has been corrected to remove the revenues associated with the temperature normalization that had been shown on line eight of this adjustment. This adjustment now increases net operating income by $681,065.

Adjustment No. 13.09 Incentive Pay: KJB-13, page 9

Please see the Prefiled Supplemental Direct Testimony of Ms. Susan E. Free, Exh. SEF-8T, for a detailed discussion of the changes to this adjustment. After updating for the changes discussed therein, this adjustment now decreases net operating income by $109,903.

Adjustment No. 13.11 Interest on Customer Deposits: KJB-13, page 11

Please see the Prefiled Supplemental Direct Testimony of Ms. Susan E. Free, Exh. SEF-8T, for a detailed discussion of the changes to this adjustment. After updating for the changes discussed therein, this adjustment now decreases net operating income by $176,606.

Adjustment No. 13.16 Wage Increase: KJB-13, page 16

Please see the Prefiled Supplemental Direct Testimony of Ms. Susan E. Free, Exh. SEF-8T, for a detailed discussion of the changes to this adjustment. After updating for the changes discussed therein, the adjustment now decreases net operating income by $1,357,716.

Adjustment No. 13.17 Investment Plan: KJB-13, page 17

This adjustment is being updated solely due to the change to the effective wage increase in Adjustment 13.16 Wage Increase. After updating for this change, the adjustment now decreases net operating income by $96,705.

B. Exh. KJB-14 Electric Only Adjustments

Q. Please explain the changes that were made to the adjustments that only impact electric operations.

A. On Exh. KJB-14, pages 1 and 2, the following inputs to rate year power costs have been updated and are discussed in the Prefiled Supplemental Direct Testimony of Mr. Paul K. Wetherbee, Exh. PKW-8CT:

1. Natural gas prices

2. Hedges
3. Rates charged to PSE for upstream pipeline costs
4. Schedule 91 contracts.

Other power costs that are dependent on natural gas prices and dispatch decisions were also updated. Mr. Wetherbee's Exh. PKW-9C and Exh. PKW-10C provide a comparison by FERC account and resource of the changes to power costs relative to the original filing. Page two of Adjustment 14.01 details where various power cost amounts have been moved to other adjustments for presentation purposes, and has been updated for these changes as well. This adjustment continues to be calculated following its original methodology. Net operating income is now decreased by $14,772,510 for this pro forma adjustment.

Adjustment No. 14.02 Montana Electric Tax: KJB-14, page 3

This restating adjustment is being changed solely due to the changes made in Adjustment 14.01 Power Costs to rate year generation for Colstrip on which the Wholesale Energy Transaction Tax and Electricity and Electrical Energy License Tax are applied. This adjustment continues to be calculated following its original methodology. This adjustment now increases net operating income for electric operations by $61,133.

Adjustment No. 14.05 Storm Damage: KJB-14, page 6

As originally discussed on page 45 of my prefiled direct testimony, this adjustment is being updated to reflect the updated deferral balance through

February 28, 2017 for the October 14, 2016 storm event. The 2016 deferral balance, which includes this event, is shown on line 26a. It was updated for the storm restoration charges that were deferred for this event after the test year, which increased the deferral balance by $2.2 million for a total deferral balance of $10.4 million. Additionally, PSE experienced one more storm related event that qualified for deferral and has added this deferral balance to this adjustment. The event was a snow storm that occurred on February 4, 2017, for which notice was provided to the Commission on February 9, 2017. The deferral balance is shown on line 26b and totals $8,153,023. This deferral balance will be updated at rebuttal once the total deferred costs for this or subsequent events are known. This adjustment continues to be calculated following its original methodology. This adjustment now decreases net operating income for electric operations by $8,389,018.

Adjustment No. 14.11 White River: KJB-14, page 12

As stated on page 58 of my prefiled direct testimony, this adjustment is being updated for the net proceeds that were received associated with a timber contract on White River properties which totaled $415,326. Additionally, this adjustment is being updated to incorporate the February 28, 2017 balance of the regulatory asset accounts which received minor charges of $8,700 related to prior sales of White River surplus properties. This adjustment continues to be calculated following its original methodology. This adjustment now decreases net operating income by $3,288,310 and decreases rate base by $4,108,724.

Adjustment No. 14.13 Production Adjustment: KJB-14, pages 14 and 15

This adjustment continues to be calculated following its original methodology. It is being updated solely as a result of the above described changes that relate to production costs. This adjustment now increases net operating income by $3,129,537 and decreases rate base by $54,762,869.

IV. POWER COST ADJUSTMENT

Q. Have you updated the PCA Baseline Rate for the changes discussed above?

A. Yes, Exh. KJB-15, which is an updated version of Exh. KJB-8, reflects the updates discussed above and is prepared in the same manner as previously filed. The costs have been allocated between fixed and variable in the same manner as discussed in my prefiled direct testimony. The updated PCA Baseline Rate is $60.759 per MWh with the fixed portion being $26.748 per MWh and the variable portion being $34.011 per MWh.

V. CONTINGENT CALCULATION FOR ANTICIPATED LARGE CUSTOMER RETAIL WHEELING FILING

Q. Please explain the information you have prepared for the anticipated future large customer retail wheeling filing.

A. As discussed earlier in my testimony, PSE is presenting in this filing the information necessary to adjust its rates at the time Microsoft takes retail wheeling service pursuant to a special contract. The way in which rates will be changed once this occurs is described in the Prefiled Supplemental Direct Testimony of Mr. Jon A. Piliaris, Exh. JAP-34T. Mr. Piliaris discusses the increase to rates in Schedule 142 that would occur when Microsoft begins taking retail service pursuant to a special contract, reflecting the higher revenue per customer to recover PSE's fixed production costs. Mr. Piliaris also discusses the decrease in rates that would occur to pass back the stranded cost payment to remaining customers. The final part of the rate change will be to update Schedule 95 for the change in the variable portion of the PCA Baseline Rate. This change will incorporate the reduction in power costs that would occur once PSE no longer serves Microsoft's load. Power costs are reduced $13.5 million under this scenario, which is discussed in more detail in the Prefiled Supplemental Direct Testimony of Mr. Paul K. Wetherbee, Exh. PKW-8CT. Likewise, the update to Schedule 95 for the variable component of the revised PCA Baseline Rate will incorporate the loss of Microsoft's test year delivered load.

Q. Please explain your calculation of the change to Schedule 95 to update the variable component of the PCA Baseline Rate that would occur once Microsoft takes retail wheeling service pursuant to a special contract.

A. My Exh. KJB-16 presents the change in revenue requirement that would occur for updating the variable portion of the PCA Baseline Rate once Microsoft takes retail wheeling service pursuant to a special contract. This is referred to as the "Contingent Calculation without Microsoft." Page one shows the contingent calculation of the related deficiency. Page two presents the new PCA Baseline Rate that would result from the reduction to power costs and the reduction to test year delivered load discussed above. The contingent PCA Baseline Rate was calculated to incorporate the following three changes:

1. Variable power costs were reduced by $13.5 million as supported by Mr. Wetherbee. After application of the production factor, the reduction to the variable power costs on line 27 of page two is $12.8 million.

2. The production factor was updated to remove Microsoft's test year delivered load and to remove the full load that was included in the rate year to serve Microsoft. This resulted in a minor change to the variable production factor, which decreased to 3.817% from 3.839%.

3. Microsoft's test year delivered load was removed from the load on line 30 used to calculate the PCA Baseline Rate. This reduction to load recognizes the loss of revenue that will occur with Microsoft's departure and results in an increase to the PCA Baseline Rate in excess of the reduction in power costs, which is why the PCA Baseline Rate is higher in the contingent calculation than in the Supplemental filing.

The result of these changes on Schedule 95 rates is presented on page one of Exh. KJB-16. Line 7 of this exhibit shows the contingent variable rate, which is $35.825 per MWh, and also shows the variable rate included in this supplemental filing, which is $35.711 per MWh. The difference between these two rates is multiplied by the normalized delivered load for the test period excluding Microsoft. The result of this contingent calculation is the requested change in revenue after revenue sensitive items of $2,312,257.

VI. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.