EXHIBIT NO. ___(KJB-1T)
DOCKET NO. UE-121697/UG-121705
JOINT DECOUPLING ACCOUNTING PETITION
WITNESS: KATHERINE J. BARNARD

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of **PUGET SOUND ENERGY, INC and NW ENERGY COALITION** **For an Order Authorizing PSE To Implement Electric and Natural Gas Decoupling Mechanisms and To Record Accounting Entries Associated With the Mechanisms**	**Docket No. UE-121697** **Docket No. UG-121705**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
KATHERINE J. BARNARD
ON BEHALF OF PUGET SOUND ENERGY, INC.

MARCH 1, 2013

PUGET SOUND ENERGY, INC.

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KATHERINE J. BARNARD

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PUGET SOUND ENERGY, INC.

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I. INTRODUCTION

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

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

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

A. Yes. It is Exhibit No. ___(KJB-2).

Q. What is the purpose of this prefiled direct testimony?

A. This prefiled direct testimony supports the calculation of the K-factors used in the amended petition for electric and natural gas revenue decoupling.

II. K-FACTOR

Q. Please explain the K-factor and its purpose.

A. As described in the Prefiled Direct Testimony of Mr. Jon A. Piliaris, Exhibit No. ____(JAP-1T), the K-factor, as originally proposed, bridged the gap between growth in customers and growth in energy sales in the absence of conservation. This K-factor was used to adjust allowed revenue per customer to more closely align with the delivery-related revenue that would have been recovered in the absence of PSE's conservation programs. The absence of such a K-factor adjustment was the key obstacle to the Company's endorsement of the decoupling proposal of the NW Energy Coalition (the "Coalition") in Docket Nos. UE-111048 and UG-111049 (the "2011 GRC").

Q. Please explain how the modified proposal for the K-factor differs from the K-factor included in the original proposal.

A. The modified K-factor is a weighted escalation factor, designed to provide a set level of allowed increases in revenues per customer to address the growth in non-energy costs PSE has experienced and expects to continue to experience over the next few years.

Q. Why was the approach to calculating the K-factor changed?

A. As discussed in the Prefiled Supplemental Direct Testimony of Mr. Jon A. Piliaris, Exhibit No. ___(JAP-8T), it became apparent during the discovery process and particularly during the technical workshops that there was reluctance on the part of stakeholders to deriving K-factors based on reported conservation achievement. As discussions continued with Commission Staff, PSE focused on how the K-factor could be used to allow revenues to grow in a reasonable manner in the context of a general rate case stay out period. The modified K-factor presented here, which is based on escalation factors, addresses these concerns.

Q. Does the modified K-factor change from year to year?

A. No. The K-factor value is set at a constant level, similar to a rate plan, because the decoupling proposal now includes a two- to three-year general rate case stay out period. This change provides a set level of allowed increase in revenues per customer on an annual basis to address the growth in non-energy costs that PSE continues to experience.

Setting the K-factor value at a constant level provides a couple of significant advantages during the proposed general rate case stay out period. First, it provides an incentive for the Company to further manage its costs within the parameters of allowed, pre-determined increases. Second, it benefits customers by providing greater rate certainty during this two- to three-year general rate case stay out period.

Q. Has the Commission been supportive of mechanisms that would reduce the need for general rate proceedings?

A. Yes. In Dockets UE-111048 and UG-111049, the Commission considered an expedited rate case proposal presented by Commission Staff intended to address, in part, PSE's concerns with regulatory lag. In response to this proposal, the Commission stated it "appreciate(s) Staff's willingness to bring forward the outline of a proposed process mechanism to help address the particular problems associated with PSE's current position in a cycle of capital investment."[1] The Commission stated that it would give fair consideration to a PSE filing along the lines Commission Staff suggested in that case. Additionally, the Commission

[1] *WUTC v. Puget Sound Energy, Inc*., Dockets UE-111048 and UG-111049, Order 08, ¶ 506 (May 7, 2012).

stated it "would be particularly interested in proposals that might break the current pattern of almost continuous rate cases."[2]

> [T]he Commission would be particularly interested in proposals that might break the current pattern of almost continuous rate cases. This pattern of one general rate case filing following quickly after the resolution of another is overtaxing the resources of all participants and is wearying to the ratepayers who are confronted with increase after increase. This situation does not well serve the public interest and we encourage the development of thoughtful solutions.[3]

Q. Has the Commission previously approved rate plans that provided predetermined step increases in rates?

A. Yes. In Docket UE-960195, the Commission approved a rate plan that provided pre-determined step increases in rates in the Washington Natural Gas and Puget Sound Power & Light Company merger proceeding.[4] More recently, the Commission approved a two-year rate plan for Avista Corporation in Dockets UE-120436 and UG-120437, with predetermined step increases for 2013 and 2014.

Q. Has the Company been under recovering its costs in the recent past?

A. Yes. Simply by reviewing PSE's filed Commission basis report one can see that annually the Company has earned less than its authorized rate of return, despite the allowed increases in general rates. The following table provides a comparison

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[2] *Id*. ¶¶ 506-07.

[3] *Id.* ¶ 507.

[4] *In re Puget Sound Power & Light Co. and Washington Natural Gas Co. for an Order Authorizing the Merger of Washington Energy Co. with and Into Puget Sound Power & Light Co, and Authorizing the Issuance of Securities, Assumption of Obligations, Adoption of Tariffs, and Authorizations in Connection Therewith,* Docket UE-960195, Fourteenth Supplemental Order (Feb. 5, 1997).

of the Company's actual earnings reflected on Commission basis reports to the authorized rate of return and return on equity in place during the calendar year for electric and natural gas operations.

ELECTRIC

	Overall		**Equity**	
For Year of	**Normalized**	**Authorized**	**Normalized**	**Authorized**
2011	6.62%	8.10%	6.98%	10.10%
2010	6.07%	8.10%	5.57%	10.10%
2009	6.11%	8.25%	5.63%	10.15%
2008	6.39%	8.25%	5.94%	10.15%
2007	8.13%	8.40%	9.89%	10.40%

GAS

	Overall		**Equity**	
For Year of	**Normalized**	**Authorized**	**Normalized**	**Authorized**
2011	6.78%	8.10%	7.30%	10.10%
2010	6.24%	8.10%	5.92%	10.10%
2009	6.10%	8.25%	5.61%	10.15%
2008	6.52%	8.25%	6.32%	10.15%
2007	7.34%	8.40%	8.07%	10.40%

As demonstrated above, the Company has earned significantly less than its authorized return on equity ("ROE") since 2008.

Q. Is there any other information demonstrating that PSE is not earning its allowed return?

A. Yes. PSE has filed several rate cases in the last few years that have resulted in rate increases. The Second Exhibit to the Prefiled Direct Testimony of Ms. Katherine J. Barnard, Exhibit No. ___(KJB-3), shows the historical growth factors for electric and natural gas operations respectively based on the past general rate case compliance filings. Page 1 of Exhibit No. ___(KJB-3) shows that the compound growth rate in non-power costs for electric operations have been consistently greater than 5 percent, while the loads have been essentially flat. Natural gas operations, as demonstrated on page 2 of Exhibit No. ___(KJB-3), shows a similar pattern of consistent increases in non-energy costs and flat loads.

Q. Please explain how the modified K-factors were developed.

A. Both the electric and natural gas K-factor values represent a weighted average escalation factor. The weightings are based on the percentage of non-production related revenue requirements for the following: 1) non-production rate base, 2) depreciation expense and 3) all other operating expenses, which include O&M, Customer Service and Administrative and General expenses. The rate base and depreciation expense escalation factors are based upon the historical compound growth rate in these costs as shown in the approved general rate case compliance filings from 2006 through 2011. For the "all other operating" expense category, the Company relies on the forecasted average Consumer Price Index ("CPI") for the 2013 to 2015 period less a one-half percent productivity factor.

Q. Why didn't the Company just use the CPI for the K-factor?

A. The CPI is not an appropriate proxy for growth in PSE's non-production rate base and related depreciation expenses due to the ongoing replacement of aging infrastructure that has been occurring over the past several years and is anticipated to continue into the future.

Page 3 of Exhibit No. ___(KJB-3) provides the historical Consumer Price Index (CPI) for all Urban Consumers. The table shows that the average increase in the CPI over the 2006 to 2011 period was 2.4 percent. This is clearly not a good indicator because PSE's non-production electric rate base has grown on average at 6 percent a year and natural gas at 5.5 percent per year for that same period as shown on pages 1 and 2 of Exhibit No. ___(KJB-3).

Q. Please explain the Third Exhibit to the Prefiled Direct Testimony of Ms. Katherine J. Barnard, Exhibit No. ___(KJB-4).

A. The Third Exhibit to the Prefiled Direct Testimony of Ms. Katherine J. Barnard, Exhibit No. ___(KJB-4), provides the calculation of the K-factor value for use during the proposed general rate case stay out period. Page 1 of Exhibit No. ___(KJB-4) shows the calculation of the weighted average escalation factors for electric and gas operations as outlined earlier in this prefiled direct testimony. Column A and Column B reflect each category's rate base, depreciation, and all other expenses and relative percentage to the 2011 GRC revenue requirement related to delivery service. Column C reflects the escalation factor for each of the categories based on the escalation factor discussed above, with Column D calculating each of their weighted escalation factors. For electric operations, the weighted escalation factor was 4.06 percent, which results in a K-factor value of 1.0406. For natural gas operations, the weighted escalation factor was 3.80 percent, which results in a K-factor value of 1.0380.

Q. Are these the K-factor values proposed for use during the general rate case stay out period?

A. No. Commission Staff and the Company agreed to K-factor values of 1.030 for use in the electric decoupling mechanism and 1.022 for use in the natural gas decoupling mechanism.

These factors represent a stretch goal that provide customer benefits by setting increases in revenues that are less than what the historical growth factors would support, while providing PSE an opportunity to earn its authorized rate of return during the proposed general rate case stay out period.

Q. Why did PSE use the annual growth rates from the 2006 to 2011 general rate cases?

A. PSE used this period because it includes the most recently approved general rate case test year and the general rate case test year that is at least five years prior to the most recent test year. Using a time period that is at least five years in duration removes the volatility in changes in rate base and expenses that occurs between two consecutive test periods.

Q. Are the historical trends relevant for use during the proposed general rate case stay out period?

A. Yes. Historical trends are a fair representation of the level of investment that PSE anticipates to continue throughout the general rate case stay out period. The Fourth Exhibit to the Prefiled Direct Testimony of Ms. Katherine J. Barnard, Exhibit No. ___(KJB-5), provides PSE's capital plan for the 2013 through 2015 period for non-production related investments. This exhibit demonstrates that non-production related investments are similar to those seen during the 2006 through 2011 period.

As shown on line 6 of Exhibit No. ___(KJB-5), electric operations non-production related net plant additions are forecasted to increase by more than $450 million over the 2013 to 2015 period, or approximately $152 million per year. This is consistent with the 2006 through 2011 period, shown on page 1 of Exhibit No. ___(KJB-3), in which non-production electric rate base increased, on average, by $109 million per year.

Line 12 of Exhibit No. ___(KJB-5) shows that natural gas operations net plant in service is forecasted to increase by more than $250 million during that same period, or approximately $86 million per year which is consistent with the upward trend during the 2006 through 2011 period, where natural gas rate base, increased by approximately $71 million per year.

Q. Does the historical data upon which the 2.2 percent increase in gas margin is calculated include investments made by PSE for replacement of mains or other types of investments that might be considered by the Commission as part of a Cost Recovery Mechanism ("CRM") authorized in the Commission's policy statement in Docket No. PG-120715?

A. No. The Commission's policy statement in Docket PG-120715 requires that utilities develop a Replacement Plan for higher risk pipe, and only costs associated with those specific projects are eligible for recovery through a CRM.

Q. If the Company files a CRM in the future, would that filing differentiate between costs that are recovered by the K-factor and the additional costs that it seeks recovery for under a CRM?

A. Yes, any such filing would differentiate the costs recovered through the proposed CRM from the costs recovered through the decoupling mechanism.

III. CONCLUSION

Q. Does this conclude your prefiled direct testimony?

A. Yes, it does.