

EXHIBIT NO. ___(KJB-1T)
DOCKET NO. UE-16___
PCA 14 COMPLIANCE
WITNESS: KATHERINE J.BARNARD

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Petition of
PUGET SOUND ENERGY
For Approval of its April 2016 Power Cost
Adjustment Mechanism Report**

Docket No. UE-16___

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

APRIL 29, 2016

PUGET SOUND ENERGY

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

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1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY OF KATHERINE J. BARNARD**

3 **I. INTRODUCTION**

4
5 **Q. Please state your name, business address and present position.**

6 A. My name is Katherine J. Barnard. My business address is 10885 N.E. Fourth
7 Street, P.O. Box 97034, Bellevue, Washington 98009-9734. I am the Director of
8 Revenue Requirement and Regulatory Compliance for Puget Sound Energy, Inc.
9 ("PSE").

10 **Q. What is your educational and professional experience?**

11 A. The First Exhibit to my testimony, Exhibit No. ___(KJB-2) describes my
12 educational and professional experience.

13 **Q. What are your duties as Director of Revenue Requirement and Regulatory**
14 **Compliance for PSE?**

15 A. As Director of Revenue Requirement and Regulatory Compliance, I am
16 responsible for the Revenue Requirement and Regulatory Compliance
17 departments at PSE.

1 **Q. What is the purpose of this filing?**

2 A. In accordance with the Commission's Twelfth Supplemental Order in Docket
3 No. UE-011570, PSE must file an annual report detailing the power costs
4 included in its deferral calculation under the Power Cost Adjustment ("PCA")
5 Mechanism. In accordance with the Commission's Sixteenth Supplemental Order
6 in Docket Nos. UE-011570, the annual PCA true-up filings are due by the end of
7 each March for the prior PCA calendar year. As explained below in section II,
8 "Background Regarding The PCA Mechanism", PSE is filing the PCA 14 annual
9 true-up for calendar year 2015 by April 2016. Through its Petition, PSE is
10 requesting approval of its PCA Mechanism Report ("PCA Annual Report") for
11 the Twelve Months Ended December 31, 2015 ("PCA Period 14"). The PCA
12 Annual Report is provided in this filing as the Second Exhibit to my testimony,
13 Exhibit No. ___(KJB-3).

14 **II. BACKGROUND REGARDING THE PCA MECHANISM**

15 **Q. Please provide a brief summary of the Power Cost Adjustment Mechanism.**

16 A. As authorized by the Commission, PSE's PCA Mechanism accounts for
17 differences in PSE's modified actual power costs relative to a power cost baseline.
18 The calculation is performed using the same methodology shown in PCA
19 Exhibit B from the Settlement Stipulation approved in the Commission's Twelfth
20 Supplemental Order in Docket No. UE-011570 ("2002 PCA Settlement
21 Stipulation"). This mechanism accounts for a sharing of costs and benefits that

1 are graduated over four levels of power cost variances. The 2002 PCA Settlement
2 Stipulation defines the specific sharing levels and conditions. The 2002 PCA
3 Settlement Stipulation is attached as Exhibit A to the Petition.

4 A PCA Collaborative was initiated as part of the Settlement terms from the 2013
5 Power Cost Only rate case (“PCORC”), Docket No. UE-130617. The PCA
6 Collaborative resulted in a Settlement Stipulation involving modifications to
7 PSE’s PCA mechanism (“2013 Settlement Stipulation”). The 2013 Settlement
8 Stipulation was approved in Order 11 of PSE’s 2013 PCORC (“Order 11”). As a
9 result, beginning January 2017, the power cost baseline rate shall be comprised of
10 both variable production costs which will continue to be tracked in the PCA
11 mechanism, and fixed production and delivery costs which will be included in the
12 decoupling mechanism. These changes do not impact this current annual PCA
13 compliance filing. They will be first reported on in PSE’s 2017 PCA compliance
14 filing due by the end of April 2018.

15 Additional modifications to PSE’s PCA mechanism approved in Order 11 as
16 outlined in the 2013 Settlement Stipulation include the following:

- 17 • Removal of Fixed Production Costs from the PCA imbalance calculation
18 for inclusion in PSE’s decoupling mechanism should it continue;
- 19 • Removal of the costs of PSE’s hedging line of credit from the PCA
20 imbalance calculation for inclusion in PSE’s cost of capital in its next
21 general rate case.
- 22 • Modifications to the dead band and the sharing bands;
- 23 • Modifications to the refund or surcharge trigger;

- Modifications to and certain removals of the required PCA exhibits;
- Modifications to the timing and addition of a stay out provision.

Order 11 provided that no further changes to PSE's PCA mechanism could be sought for five years. And finally, Order 11 approved that PSE's annual PCA compliance report would be due in April of each year, rather than March.

Q. If the 2013 Settlement Stipulation does not take effect until January 1, 2017, why did PSE file this compliance filing in April 2016 rather than March 2016?

A. Due to significant filing commitments in March 2016, PSE proposed to the other parties who executed the 2013 Settlement Agreement that PSE file its annual PCA Mechanism Report for the calendar year 2015 by April 30, 2016 rather than March 31, 2016. WUTC Staff accepted PSE's proposal and Public Counsel stated that it did not oppose PSE's proposal. PSE also consulted with the Industrial Customers of Northwest Utilities ("ICNU"), which participated in the PCA Collaborative but did not execute the 2013 Settlement Agreement. INCU responded that it neither supported nor opposed PSE's proposal. Accordingly, on February 23, 2016, PSE notified the Commission that it would file its PCA Mechanism Report by April 30, 2016.

Because the remaining changes referenced above do not take effect until January 1, 2017, PSE is filing its testimony, exhibits and work papers in this compliance filing in the same manner it has in previous PCA compliance filings.

1 **Q. Please describe the categories of power costs that are included in the current**
2 **PCA Mechanism.**

3 A. As the PCA mechanism is currently designed, the following fixed and variable
4 power costs are included. These costs are adjusted as described below.

5 **Fixed Costs:**

6 For PCA calculation purposes, fixed costs are power production related costs and
7 rate of return. Power production related costs from the most recent general rate
8 case or power cost only rate case are included and do not change from what was
9 approved. These costs are related to production plant, and specifically identified
10 transmission plant and include the associated return on, depreciation, production
11 payroll overhead and taxes, energy taxes and insurance¹. Other fixed costs
12 include FERC Accounts 557 Other production expense, Hydro and Other
13 Production O&M, and 500 KV O&M. Regarding the rate of return, the approved
14 rate from the most recent general rate case or other proceeding is applied as
15 appropriate in the PCA period.

16 **Variable Costs:**

17 PCA variable costs include actual monthly amounts recorded in FERC Accounts
18 501 – Steam generation fuel, 547 – Other power generation fuel, 555 – Purchased
19 power, 447 – Sales for resale, 565 – Transmission of electricity by others. In
20 addition, Colstrip major maintenance amortization, variable costs and credits for

1 sales of non-core gas, Transmission Revenue for the specifically identified
2 transmission lines, and costs related to the hedging line of credit are included.
3 Allowed regulatory return on and of regulatory assets and liabilities associated
4 with the types of items that have been approved by order to be recovered through
5 the PCA are also included in variable costs. A listing of these regulatory assets
6 and liabilities is included on pages 7 and 8 of the PCA Annual Report, Exhibit
7 No. ___(KJB-3).

8 **Adjustments to Variable Costs:**

9 The following are adjustments as determined in Docket No. UE-011570²:

10 Adjustments reflected on Exhibit B:

- 11 1) **Exhibit F** - Colstrip Availability adjustment if the actual
12 availability factor for the four plants at Colstrip falls below a 70%
13 equivalent availability factor. This adjustment would be reflected
14 on PCA Exhibit F, "Colstrip Availability Adjustment". No
15 adjustment under Exhibit F was required in PCA Period 14.
- 16 2) **Exhibit G** - New long-term resource pricing adjustment to bring
17 the variable cost of the new resource to the lower of actual unit
18 cost or the average embedded cost. This adjustment is reflected on
19 PCA Exhibit G, "New Resource Adjustment." No adjustment
20 under Exhibit G was required in PCA Period 14.
- 21 3) **PPA Equity Adjustment** - An adjustment to variable costs is
22 required for the equity component of the Transalta Centralia Coal
23 Transition Power Purchase Agreement ("PPA") approved by the
24 Commission in UE-121373. Consistent with Order 03 in UE-
25 121373, Ordering Paragraph 125, PSE accounts for the cost
26 associated with the equity return component on Schedule B of the
27 PCA mechanism. By including the costs associated with the

¹ Property taxes were removed from the PCA mechanism effective with Docket No. UE-130617.

² Exhibit E was removed from the PCA mechanism effective with Docket No. UE-060266.

1 equity return component on the lines designated in the
2 Adjustments section of Schedule B, the PCA mechanism will
3 account for the total costs associated with the Coal Transition
4 PPA. This type of adjustment is necessary to make actual booked
5 expenses, which do not include regulatory adjustments, match the
6 recovery built into rates. The equity component of PSE's
7 authorized rate of return for the Coal Transition PPA is earned by
8 PSE and recovered in an amount equal to \$1.49/MWh³ for each
9 MWh of energy paid for by PSE under the Coal Transition PPA.
10 During calendar year 2015, PSE purchased 1,651,177 MWh
11 through the Coal Transition PPA resulting in an adjustment of
12 \$2,460,254 under Exhibit B.

13 Adjustments not reflected on Exhibit B:

- 14 1) Variable costs incurred may be adjusted for items pursuant to the
15 Methodology for Adjustments of Costs Outside of the PCA Period
16 ("Restatement Methodology"), which is provided as the Third
17 Exhibit to my testimony as Exhibit No. ___(KJB-4).⁴ There were
18 no adjustments outside of the period that were in PCA Period 14
19 required to be made pursuant to this methodology.
- 20 2) Adjustments to variable costs for items from prior periods that do
21 not meet the requirements for prior period restatement under the
22 Restatement Methodology are flowed through the current month
23 PCA calculation. There was one such adjustment in PCA Period
24 14 that is discussed in more detail below.

25 **III. PCA PERIOD 14 ACCOUNTING**

26 **Q. Please explain how PSE has tracked its PCA Period 14 power costs.**

27 A. There were no significant changes to the PCA Mechanism during PCA Period 14.
28 Each month PSE calculates the power costs subject to PCA sharing using the
29 same methodology shown in PCA Exhibit B from the 2002 Settlement

³ Paragraph 123 Order No. 03 UE-121373.

⁴ Approved in Appendix B to the Partial Multiparty Settlement Stipulation adopted in Order 04 in WUTC Docket No. UE-031389.

1 Stipulation. Allowed power costs include the fixed and variable costs, net of the
2 adjustments discussed above. These total allowable costs are then compared to
3 the approved baseline power cost rate, multiplied by the actual delivered load, and
4 any difference is allocated to PSE or customers based on the different levels of
5 sharing defined in the existing PCA Mechanism. Any difference allocated to
6 customers is recorded in FERC Account 182.3, Other regulatory assets.

7 Under the PCA Mechanism, the deferred amount at the time of the next PCA
8 annual true-up filing, along with the projected variable and fixed costs through
9 the next proposed rate year could be considered in the determination of any rate
10 change for the subsequent PCA period. Amounts deferred, when authorized, will
11 be amortized to FERC Account 407.3, Regulatory debits or 407.4, Regulatory
12 credits as they are recovered from or refunded to customers. At the time of the
13 filing of this petition such a request is not necessary.

14 PSE accrues interest monthly on any deferred balance (debit or credit) at the
15 interest rate calculated in accordance with WAC 480-90-233(4).

16 **Q. Did the baseline power cost rate change during PCA Period 14?**

17 A. No. From December 1, 2014 through December 31, 2015, the baseline power
18 cost rate was \$59.819 per MWh. The baseline rate was approved in PSE's 2014
19 PCORC, Docket No. UE-141141. The baseline power cost rate for this period is
20 found on page ten of Exhibit No. ____ (KJB-3).

1 **Q. What is the actual average power cost rate experienced for PCA Period 14?**

2 A. As shown on page five (Exhibit A-1 Power Cost Rate Updated) of Exhibit
3 No. ___(KJB-3), the calculated average power cost rate experienced for PCA
4 Period 14 is \$60.245 per MWh.

5 **Q. Why did the total allowable costs on line 27, page five of Exhibit**
6 **No. ___(KJB-3) differ from the total allowable costs in effect during PCA**
7 **Period 14 presented on line 27,page ten of Exhibit No. ___(KJB-3)?**

8 A. The total allowable costs differed from the baseline power costs in effect during
9 PCA Period 14 due only to changes in the variable components of the PCA
10 mechanism, which are discussed in the Prefiled Direct Testimony of Tom A.
11 DeBoer, Exhibit No. ___(TAD-1CT). The calculated total costs do not include
12 adjustments to any of the fixed costs included in the baseline rate. In other words,
13 the fixed costs included in the actual average power cost rate represents those
14 costs approved in PSE's 2014 PCORC for the appropriate months of PCA Period
15 14.

16 **Q. How did the actual power costs compare to the average baseline power cost**
17 **rates in effect during PCA Period 14?**

18 A. Actual power costs were higher than the average baseline power cost in rates
19 effect during PCA Period 14 by \$8,733,855 (after adjustment for Firm
20 Wholesale). PSE's share of this under-recovery of power costs is \$8,733,855.

1 The customers' share of this under-recovery of power costs is \$0. *See* page four
2 of Exhibit No. ____ (KJB-3)

3 **Q. What is the distribution of the resulting cumulative imbalance for sharing at**
4 **the end of PCA Period 14?**

5 A. Considering the activity that occurred in PCA Period 14, the cumulative
6 imbalance for sharing at the end of PCA Period 14 for PCA Periods 1 through 14
7 was an under-collection of \$13,323,336. PSE's share of this imbalance is
8 \$9,464,958, with the remaining \$3,858,378 assigned to the customer: *See* Exhibit
9 No. ____ (KJB-3), page four.

10 **IV. ADJUSTMENT OF VARIABLE COSTS MADE UNDER THE**
11 **RESTATEMENT METHODOLOGY**

12 **Q. Were there any adjustments made under the Restatement Methodology for**
13 **power costs in PCA Period 14?**

14 A. There was one adjustment made to SAP variable costs during PCA Period 14.
15 The adjustment made to SAP variable costs during PCA Period 14 did not meet
16 the requirements for restatement of prior periods, and thus was flowed through the
17 PCA calculation in the PCA Period 14 month in which it was identified as
18 governed by section C.2. of the Restatement Methodology. A description of the
19 adjustment follows and additional support for it is included in the detailed work
20 papers filed in support of my Exhibit No. ____ (KJB-3):

1 In December 2014 PSE recorded a debit of \$85,895 in FERC order 547 to adjust
2 the gas for power inventory at Jackson Prairie to lower of cost or market. This
3 debit was excluded from the PCA 13 total allowable costs via a credit adjustment
4 because an inventory write-down is considered a non-cash financial adjustment to
5 costs so should not impact the PCA. For PCA 14 PSE recorded the reversal of
6 this \$85,895 PCA debit during January 2015.

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

8 **A.** Yes, it does.