

**EXHIBIT NO. \_\_\_(KJB-9T)  
DOCKET NO. UE-141141  
2014 PSE PCORC  
WITNESS: KATHERINE J. BARNARD**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-141141**

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

**AUGUST 1, 2014**

**PUGET SOUND ENERGY, INC.**

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

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1 **PUGET SOUND ENERGY, INC.**

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

4 **I. INTRODUCTION**

5 **Q. Are you the same Katherine J. Barnard who provided prefiled direct**  
6 **testimony in this docket on behalf of Puget Sound Energy, Inc. (“PSE”)?**

7 A. Yes, I filed prefiled direct testimony, Exhibit No. \_\_\_(KJB-1T), and seven  
8 supporting exhibits, Exhibit No. \_\_\_(KJB-2) through Exhibit No. \_\_\_(KJB-8).

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

11 A. This prefiled supplemental direct testimony presents:

- 12 1. the update to the power cost pro forma adjustment for the new  
13 power cost projections discussed in the Prefiled Supplemental  
14 Direct Testimony of Mr. David E. Mills, Exhibit  
15 No. \_\_\_(DEM-5CT);
- 16 2. a decrease to transmission revenues for a change to PSE’s  
17 Open Access Transmission Tariff (“OATT”) that became  
18 effective June 2, 2014, and
- 19 3. the sale of the Electron Hydroelectric Project (the “Electron  
20 Project”), which is expected to take place by August 2014.

21 I will also update those exhibits that are impacted as a result of these changes.

22 These changes to the pro forma and restating adjustments result in a revenue

23 surplus of \$5,463,695, as compared to the revenue surplus of \$9,556,193 set forth

1 in PSE's May 23, 2014 filing. The change requested in this supplemental filing is  
2 an average 0.261 percent decrease in the Power Cost Adjustment ("PCA")  
3 mechanism related rates that became effective November 1, 2013 in PSE's 2013  
4 Power Cost Only Rate Case ("PCORC"), Dockets UE-130617, et al.

5 **II. UPDATE TO REVENUE REQUIREMENT**

6 **Q. Please explain Exhibit No. \_\_\_(KJB-10).**

7 A. Exhibit No. \_\_\_(KJB-10) presents similar information as Exhibit No. \_\_\_(KJB-  
8 4), after being updated for the revisions described later in this testimony. The  
9 first column in Exhibit No. \_\_\_(KJB-10) provides the rate base and production  
10 costs from the test year that will be considered in setting the Power Cost Baseline  
11 Rate. The column titled, "Test Year Actual 12 months ended December 31,  
12 2013", sets forth the rate base and actual production costs for the test year ended  
13 December 31, 2013. The columns to the right of this first column show the  
14 impact of the pro forma and restating production cost adjustments PSE is  
15 proposing for the pro forma rate year. For the adjustments that have changed  
16 since the May 23, 2014 filing, the columns have been marked as "**REVISED**".

17 Each adjustment is presented in more detail on the succeeding pages referenced in  
18 the title of a particular column. The total of the test year amounts plus the pro  
19 forma and restating adjustments is shown on page three of Exhibit No. \_\_\_(KJB-  
20 10), in the column titled "Adjusted 12 months ended December 31, 2013". This  
21 column represents the costs included in determining the Power Cost Baseline

1 Rate, which is then used to calculate the required rate increase or decrease. These  
2 are the same amounts shown in the first column on page one of Exhibit  
3 No. \_\_\_(KJB-11), “Exhibit A-1 Power Cost Baseline Rate”.

4 The work papers supporting the May 23, 2014 adjustments were provided to all  
5 parties on May 23, 2014.<sup>1</sup> For each adjustment that is marked “**REVISED**” in  
6 Exhibit No. \_\_\_(KJB-10), a new set of hard copy work papers has been prepared.  
7 A full set of electronic work papers for all adjustments, regardless of whether or  
8 not they are different from PSE’s May 23, 2014 filing, will be provided to  
9 Commission Staff and intervenors. The numbers that changed on each work  
10 paper lead sheet as a result of this supplemental filing have been identified within  
11 the work papers.

12 **Q. Have you prepared a reconciliation between the revenue surplus filed in May**  
13 **2014 and the current revenue surplus?**

14 A. Yes. The following table shows the impact of each of the pro forma and restating  
15 adjustments on the May 23, 2014 revenue surplus.

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<sup>1</sup> ICNU received the public version of all work papers on May 23, 2014 and the confidential version later, pursuant to the Protective Order in this proceeding.

Description	Adjustments	(Surplus) Deficiency (thousands)
<b>Surplus filed May 23, 2014</b>		<b>(\$9,556)</b>
Power Costs (Excl. Electron PPA)	10.01, 10.02	\$3,164
Transmission Revenues	10.01	\$3,143
Electron (Incl. PPA)	10.07	(\$2,215)
<b>Surplus filed August 1, 2014</b>		<b>(\$5,464)</b>

1 **Q. Please explain the updates to each pro forma and restating adjustment that**  
2 **changed in this supplemental filing.**

3 A. **Adjustment 10.01, Power Costs**, was updated to reflect the power cost changes  
4 discussed in the Prefiled Supplemental Direct Testimony of David E. Mills,  
5 Exhibit No. \_\_\_(DEM-5CT). Additionally, variable transmission income was  
6 decreased to reflect updates to the Federal Energy Regulatory Commission  
7 (“FERC”) formula driven OATT rates, which were reset for the June 2014 to May  
8 2015 rate year. These rates, filed in May 2014, were approved by FERC and  
9 went into effect on June 2, 2014. OATT revenues in the rate year decreased by  
10 just over \$3 million, primarily from a 56.4 percent decrease in the Southern  
11 Intertie rate from the rate that was in effect through May 2014. The Subtotal and  
12 Baseline Rate amount increased by \$7,981,140 for this adjustment, as reflected on  
13 page one of Exhibit No. \_\_\_(KJB-10).

14 **Adjustment 10.02, Montana Energy Tax**, has been updated as a result of the  
15 updated power costs resulting in a minor change to the rate year generation from

1 the Colstrip facility. The Subtotal and Baseline Rate amount reflected on page  
2 one of Exhibit No. \_\_\_\_ (KJB-10) increased by \$49,440 for this adjustment.

3 **Adjustment 10.07, Sale of Electron**, has been changed to reflect the pending  
4 sale of the Electron Project to Electron Hydro, LLC. In my prefiled direct  
5 testimony, Exhibit No. \_\_\_\_ (KJB-1T), I indicated this adjustment would be  
6 updated upon developments in the pending sale. On June 25, 2014, PSE filed an  
7 Amended Application for an Order Authorizing the Sale of Water Rights and  
8 Associated Assets of the Electron Hydroelectric Project (“Amended Application”)  
9 in Dockets UE-130583, UE-130617, UE-131099 and UE-131230 (consolidated).

10 In its Amended Application, PSE outlined the changes to the existing Asset  
11 Purchase Agreement with Electron Hydro, LLC as follows:

- 12 1. The purchase price for PSE's Electron Project was reduced  
13 from \$13.7 million to \$8.4 million;
- 14 2. The date by which the parties must satisfy conditions  
15 precedent in the Asset Purchase Agreement was extended  
16 from May 31, 2014, to July 31 2014;
- 17 3. The term of the Purchase Power Agreement (the “Electron  
18 PPA”) was shortened from a 20-year term to a term  
19 expiring on December 31, 2026; and
- 20 4. A Facility Operation Agreement, which requires Electron  
21 Hydro, LLC to operate the Electron Project in compliance  
22 with the Resource Enhancement Agreement (“REA”)  
23 through its expiration on December 31, 2026, was  
24 established.

25 The Amended Application requests approval of PSE’s proposed accounting and  
26 ratemaking treatment, which is summarized further below.

1 As of July 31, 2014, PSE's net book value for the Electron Project is expected to  
2 be \$23.6 million, and the sale of the Electron Project will result in an after-tax  
3 loss. In its Amended Application, PSE proposes to defer the after-tax loss of the  
4 unrecovered plant cost in FERC account 182.2, "Unrecovered plant and  
5 regulatory study costs". Because depreciation expense for the Electron Project  
6 will continue to be included in PSE's rates after the transaction closes, PSE is  
7 requesting that the monthly depreciation expense be applied against the deferred  
8 unrecovered plant balance beginning from the date of closing until rates become  
9 effective in this proceeding.

10 The requested accounting and rate making treatment was outlined in Exhibit G to  
11 the Amended Application, and this Adjustment 10.07 updates this filing for the  
12 proposed accounting and ratemaking outlined in Exhibit G. It assumes a July 31,  
13 2014 transaction date and a four-year amortization period. The amortization  
14 period was determined based on the size of the regulatory asset. Additionally, the  
15 property insurance premiums for the Electron Project that are reflected in  
16 Adjustment 10.09 Property Insurance are removed in this adjustment. Finally, the  
17 test year production operations and maintenance ("O&M") for the plant is  
18 removed in this adjustment consistent with the Asset Purchase Agreement  
19 because the REA payment (which will be the only remaining post-sale production  
20 O&M cost) will be reimbursed by Electron Hydro, LLC.

21 The change to the Subtotal and Baseline Rate amount reflected on page two of  
22 Exhibit No. \_\_\_(KJB-10) decreased by \$5,086,563 for this adjustment. The



1 impact on power costs for the Electron PPA is presented in the Prefiled  
2 Supplemental Direct Testimony of Mr. David E. Mills, Exhibit No. \_\_\_\_ (DEM-  
3 4CT), and has been reflected in Adjustment 10.01, Power Costs discussed above.  
4 As noted above, the overall impact to this supplemental filing of the regulatory  
5 treatment requested in the Amended Application including the cost of the  
6 Electron Hydro PPA is a reduction to the revenue requirement (and a resulting  
7 increase to the revenue surplus) of \$2.2 million.

8 **Adjustment 10.18, Production Adjustment**, is being updated to reflect the  
9 changes to the production related adjustments for the sale of Electron Project.

10 The Subtotal and Baseline Rate amount shown on page three of Exhibit  
11 No. \_\_\_\_ (KJB-10) decreased by \$4,039,260 for this adjustment.

12 **Q. Based on recent developments in the Amended Application proceeding, will**  
13 **the Commission be able to approve the sale of the Electron Project in time**  
14 **for a July 31 transaction closing date?**

15 A. No. Based on the current procedural schedule in the Amended Application  
16 proceeding, a final decision is not expected until the end of September. In the  
17 event that the Amended Application is not approved by the Commission as filed,  
18 PSE will update these adjustments at the time of the compliance filing.

1 **Q. Will the delay in closing on the Electron Project impact the revenue**  
2 **requirement adjustments that include Electron?**

3 A. No, the delay in closing on the Electron Project will not impact the revenue  
4 requirement, provided that the transaction closes prior to the start of the rate year.  
5 As discussed earlier, until the start of the rate year PSE will continue to apply the  
6 current level of depreciation expense against the deferred unrecovered plant  
7 balance.

8 **Q. Have you prepared a new exhibit that calculates the Power Cost Baseline**  
9 **Rate for the PCA in light of the changes to the fixed and variable power costs**  
10 **described earlier?**

11 A. Yes. Exhibit No. \_\_\_(KJB-11) is similar to Exhibit No. \_\_\_(KJB-5) but reflects  
12 the updates discussed above, which are prepared in the same manner as Exhibit A  
13 to the PCA Settlement. *See* Exhibit No. \_\_\_(KJB-3) at page 15. On the first page  
14 of Exhibit No. \_\_\_(KJB-11), the costs included in the Power Cost Baseline Rate  
15 have been allocated between fixed and variable costs in the same manner as  
16 discussed in the PCA Settlement Agreement and in my prefiled direct testimony  
17 Exhibit No. \_\_\_(KJB-1T). Following the same methodology set forth in  
18 Exhibit A to the PCA Settlement, this result is then divided by the test year  
19 delivered load to calculate the new Power Cost Baseline Rate of \$60.450  
20 per MWh. Once approved by the Commission, this would be the Power Cost  
21 Baseline Rate used in tracking the PCA periods following this proceeding.

1 **Q. Please explain the remaining pages included in Exhibit No. \_\_\_(KJB-11).**

2 A. The remaining pages of Exhibit No. \_\_\_(KJB-11) are equivalent to Exhibits A-2  
3 through D to the PCA Settlement. Exhibits A-4, A-5 and D, which are on pages  
4 five through ten of Exhibit No. \_\_\_(KJB-11), have been updated to reflect the  
5 changes in power and production related costs previously discussed.

6 **Q. Please explain how PSE calculated the rate decrease required after taking**  
7 **into consideration the revised pro forma and restating adjustments.**

8 A. The rate decrease was calculated in the same manner as PSE's initial filing on  
9 May 23, 2014. This calculation is shown in Exhibit No. \_\_\_(KJB-12), which is  
10 similar to my Exhibit No. \_\_\_(KJB-6). As shown on line 16 of Exhibit  
11 No. \_\_\_(KJB-12), the new rate grossed up for revenue sensitive items is \$63.339  
12 per MWh, versus the rate currently in effect from the 2013 PCORC of \$63.598.  
13 The difference between these two rates is multiplied by the normalized delivered  
14 load for the test period. The result of this calculation is the requested revenue  
15 requirement surplus of \$5,463,695 after revenue sensitive items. This change in  
16 rates results in an average decrease of approximately 0.261 percent.

17 **Q. Have new rate spread and rate design exhibits been prepared for this revised**  
18 **revenue requirement deficiency?**

19 A. No. PSE will update the rate spread and rate design exhibits during the  
20 compliance filing in this proceeding.

1 **III. CONCLUSION**

2 **Q. Does that conclude your prefiled supplemental direct testimony?**

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