EXH. KJB-1T
DOCKET UE-17____
PCA 15 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 2017 Power Cost Adjustment Mechanism Report**	**Docket UE-17____**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

KATHERINE J. BARNARD

ON BEHALF OF PUGET SOUND ENERGY

APRIL 28, 2017

PUGET SOUND ENERGY

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KATHERINE J. BARNARD

PUGET SOUND ENERGY

PREFILED DIRECT TESTIMONY OF KATHERINE J. BARNARD

I. INTRODUCTION

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

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

Q. What is your educational and professional experience?

A. The First Exhibit to my testimony, Exh. KJB-2 describes my educational and professional experience.

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

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

Q. What is the purpose of this filing?

A. In accordance with the Commission's Twelfth Supplemental Order in Docket UE-011570, PSE must file an annual report detailing the power costs included in its deferral calculation under the Power Cost Adjustment ("PCA") Mechanism. In accordance with the Commission's Sixteenth Supplemental Order in Docket Nos. UE-011570, the annual PCA true-up filings are due by the end of each March for the prior PCA calendar year. As explained below in section II, "Background Regarding The PCA Mechanism", PSE is filing the PCA 15 annual true-up for calendar year 2016 by April 2017. Through its Petition, PSE is requesting approval of its PCA Mechanism Report ("PCA Annual Report") for the Twelve Months Ended December 31, 2016 ("PCA Period 15"). The PCA Annual Report is provided in this filing as the Second Exhibit to my testimony, Exh. KJB-3.

II. BACKGROUND REGARDING THE PCA MECHANISM

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

A. As authorized by the Commission, PSE's PCA Mechanism accounts for differences in PSE's modified actual power costs relative to a power cost baseline. The calculation is performed using the same methodology shown in PCA Exhibit B from the Settlement Stipulation approved in the Commission's Twelfth Supplemental Order in Docket UE-011570 ("2002 PCA Settlement Stipulation"). This mechanism accounts for a sharing of costs and benefits that are graduated over four levels of power cost variances. The 2002 PCA Settlement Stipulation defines the specific sharing levels and conditions. The 2002 PCA Settlement Stipulation is attached as Exhibit A to the Petition.

A PCA Collaborative was initiated as part of the Settlement terms from the 2013 Power Cost Only rate case ("PCORC"), Docket UE-130617. The PCA Collaborative resulted in a Settlement Stipulation involving modifications to PSE's PCA mechanism ("2015 Settlement Stipulation"). The 2015 Settlement Stipulation was approved in Order 11of PSE's 2013 PCORC ("Order 11"). As a result, beginning January 2017, the power cost baseline rate shall be comprised of both variable production costs which will continue to be tracked in the PCA mechanism, and fixed production and delivery costs which will be included in the decoupling mechanism should the mechanism be approved to continue in PSE's pending general rate case. These changes do not impact this current annual PCA compliance filing. They will be first reported on in PSE's 2017 PCA compliance filing due by the end of April 2018. PCA 15 will be the last compliance filing submitted in accordance with the 2002 PCA Settlement Stipulation.

Additional modifications to PSE's PCA mechanism approved in Order 11 as outlined in the 2015 Settlement Stipulation include the following:

- Removal of Fixed Production Costs from the PCA imbalance calculation for inclusion in PSE's decoupling mechanism should it continue;
- Removal of the costs of PSE's hedging line of credit from the PCA imbalance calculation for inclusion in PSE's cost of capital in its next

general rate case.

- Modifications to the dead band and the sharing bands;
- 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. Please describe the categories of power costs that are included in the current PCA Mechanism.

A. According to the 2002 PCA Settlement which is effective through December 2016, the following fixed and variable power costs are included. These costs are adjusted as described below.

Fixed Costs:

For PCA calculation purposes, fixed costs are power production related costs and rate of return. Power production related costs from the most recent general rate case or power cost only rate case are included and do not change from what was approved.[1] These costs are related to production plant, and specifically identified transmission plant and include the associated return on, depreciation, production payroll overhead and taxes, energy taxes and insurance[2]. Other fixed costs include FERC Accounts 557 Other production expense, Hydro and Other Production O&M, and 500 KV O&M. Regarding the rate of return, the approved rate from the most recent general rate case or other proceeding is applied as appropriate in the PCA period.

Variable Costs:

PCA variable costs include actual monthly amounts recorded in FERC Accounts 501 – Steam generation fuel, 547 – Other power generation fuel, 555 – Purchased power, 447 – Sales for resale, 565 – Transmission of electricity by others. In addition, Colstrip major maintenance amortization, variable costs and credits for sales of non-core gas, Transmission Revenue for the specifically identified transmission lines, and costs related to the hedging line of credit are included. Allowed regulatory return on and of regulatory assets and liabilities associated with the types of items that have been approved by order to be recovered through the PCA are also included in variable costs. A listing of these regulatory assets and liabilities is included on pages 7 and 8 of the PCA Annual Report, Exh. KJB-3.

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[1] For PCA Period 15, fixed production costs were set in PSE's 2014 Power Costs Only Rate Case ("PCORC") Docket UE-141141 and remained unchanged in PSE's 2014 PCORC Compliance Update Filing, Docket UE-161135.

[2] Property taxes were removed from the PCA mechanism effective with Docket UE-130617.

Adjustments to Variable Costs:

The following are adjustments as determined in Docket UE-011570.[3]

Adjustments reflected on Exhibit B:

1) **Exhibit F -** Colstrip Availability adjustment if the actual availability factor for the four plants at Colstrip falls below a 70% equivalent availability factor. This adjustment would be reflected on PCA Exhibit F, "Colstrip Availability Adjustment". No adjustment under Exhibit F was required in PCA Period 15.

2) **Exhibit G -** New long-term resource pricing adjustment to bring the variable cost of the new resource to the lower of actual unit cost or the average embedded cost. This adjustment is reflected on PCA Exhibit G, "New Resource Adjustment." No adjustment under Exhibit G was required in PCA Period 15.

3) **PPA Equity Adjustment -** An adjustment to variable costs is required for the equity component of the Transalta Centralia Coal Transition Power Purchase Agreement ("PPA") approved by the Commission in UE-121373. Consistent with Order 03 in UE-121373, Ordering Paragraph 125, PSE accounts for the cost associated with the equity return component on Schedule B of the PCA mechanism. By including the costs associated with the equity return component on the lines designated in the Adjustments section of Schedule B, the PCA mechanism will account for the total costs associated with the Coal Transition PPA. This type of adjustment is necessary to make actual booked expenses, which do not include regulatory adjustments, match the recovery built into rates. The equity component of PSE's authorized rate of return for the Coal Transition PPA is earned by PSE and recovered in an amount equal to $1.49/MWh[4] for each MWh of energy paid for by PSE under the Coal Transition PPA. During calendar year 2016, PSE purchased 2,533,920 MWh through the Coal Transition PPA resulting in an adjustment of $3,775,541 under Exhibit B.

Adjustments related to prior period :

1) Variable costs incurred may be adjusted for items pursuant to the Methodology for Adjustments of Costs Outside of the PCA Period

[3] Exhibit E was removed from the PCA mechanism effective with Docket UE-060266.
[4] Paragraph 123, Order 03, Docket UE-121373.

("Restatement Methodology"), which is provided as the Third Exhibit to my testimony as Exh. KJB-4.[5] There was one adjustment that related to periods outside of PCA Period 15 and that required adjustment of prior period PCA balances be made pursuant to this methodology that is discussed in more detail in section III.

2) Adjustments to variable costs for items from prior periods that do not meet the requirements for prior period restatement under the Restatement Methodology are flowed through the current month PCA calculation. There were two such adjustments in PCA Period 15 that are discussed in more detail later in my testimony.

III. PCA PERIOD 15 ACCOUNTING

Q. Please explain how PSE has tracked its PCA Period 15 power costs.

A. There were no significant changes to the PCA Mechanism during PCA Period 15. Each month PSE calculates the power costs subject to PCA sharing using the same methodology shown in PCA Exhibit B from the 2002 Settlement Stipulation. Allowed power costs include the fixed and variable costs, net of the adjustments discussed above. These total allowable costs are then compared to the approved baseline power cost rate, multiplied by the actual delivered load, and any difference is allocated to PSE or customers based on the different levels of sharing defined in the existing PCA Mechanism. Any difference allocated to customers is recorded in FERC Account 182.3, Other regulatory assets.

Under the PCA Mechanism, the deferred amount at the time of the next PCA annual true-up filing, along with the projected variable and fixed costs through

[5] Approved in Appendix B to the Partial Multiparty Settlement Stipulation adopted in Order 04 in WUTC Docket UE-031389.

the next proposed rate year could be considered in the determination of any rate change for the subsequent PCA period. Amounts deferred, when authorized, will be amortized to FERC Account 407.3, Regulatory debits or 407.4, Regulatory credits as they are recovered from or refunded to customers. At the time of the filing of this petition such a request is not necessary.

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

Q. Did the baseline power cost rate change during PCA Period 15?

A. Yes. From December 1, 2014 through November 30, 2016, the baseline power cost rate was $59.819 per MWh and can be found on page ten of Exh. KJB-3. This baseline rate was approved in PSE's Power Cost Only Rate Case ("2014 PCORC"), Docket UE-141141. In compliance with the Commission's Order 4 under Docket UE-141141, PSE was authorized to implement the December 1, 2016 price and volume changes associated with the Centralia Coal Transition purchase power agreement through a compliance filing to be made in 2016 ("Centralia compliance filing"). Additionally, paragraph 8c of the Joint Petition to Modify Order 7 in Dockets UE-121697 and UG-121705 (consolidated) and Dockets UE-130137 and UG-130138 (consolidated) (the "Joint Petition") provided in its terms that a limited update to variable power costs would be made by PSE on or before October 1, 2016 under the previously authorized Centralia compliance filing. The fixed costs would remain the same. The updated baseline rate of $58.144, found on page eighteen of Exh. KJB-3, was approved in Docket UE-161135, and went into effect on December 1, 2016.

Q. What is the actual average power cost rate experienced for PCA Period 15?

A. As shown on page five (Exhibit A-1 Power Cost Rate Updated) of Exh. KJB-3, the calculated average power cost rate experienced for PCA Period 15 is $59.730 per MWh.

Q. Why did the total allowable costs on line 27 of Exh. KJB-3 page 5 differ from the total allowable costs in effect during PCA Period 15 presented on line 27 of Exh. KJB-3 pages 10 and 18?

A. The total allowable costs differed from the baseline power costs in effect during PCA Period 15 due only to changes in the variable components of the PCA mechanism, which are discussed in the prefiled direct testimony of Paul K. Wetherbee, Exh. PKW-1CT. The calculated total costs do not include adjustments to any of the fixed costs included in the baseline rate. In other words, the fixed costs included in the actual average power cost rate represents those costs approved in PSE's 2014 PCORC and Centralia Compliance filing, discussed above, and for the appropriate months of PCA Period 15.

Q. How did the actual power costs compare to the average baseline power cost rates in effect during PCA Period 15?

A. Actual power costs were higher than the average baseline power cost in rates effect during PCA Period 15 by $2,058,382 (after adjustment for Firm Wholesale). PSE's share of this under-recovery of power costs is $2,058,382. The customers' share of this under-recovery of power costs is $0. *See* page four of Exh. KJB-3.

Q. What is the distribution of the resulting cumulative imbalance for sharing at the end of PCA Period 15?

A. Considering the activity that occurred in PCA Period 15, the cumulative imbalance for sharing at the end of PCA Period 15 for PCA Periods 1 through 15 was an under-collection of $14,174,454. PSE's share of this imbalance is $10,720,108 with the remaining $3,454,344 assigned to the customer: *See* Exh. KJB-3, page four.

Adjustments to PCA variable costs in PCA Period 15.

IV. ADJUSTMENT OF COSTS MADE UNDER THE RESTATEMENT METHODOLOGY

Q. Were there any adjustments made under the Restatement Methodology for power costs in PCA Period 15?

A. There were two adjustments made to SAP variable costs during PCA Period 15. These two adjustments did not meet the requirements for restatement of prior periods, and thus were flowed through the PCA calculation in the PCA Period 15 months in which they were identified as governed by section C.2. of the Restatement Methodology. These adjustments include:

In April 2016, PSE began recording the 1) Jackson Prairie ("JP") Inter-book and 2) the JP Northwest Pipeline (“NWP”) demand and capacity demand charges for storage to Fuel FERC 547. When the JP Inter-book contract expired and a replacement contract became effective on April 1, 2016, PSE aligned the accounting for the JP Inter-book and NWP contracts to be consistent with the existing FERC accounting associated with the Plymouth demand and capacity demand charges. Without the gas storage, PSE would be unable to deliver the fuel for its generation. Because gas storage is an integrated component of gas transportation service and is used on a daily basis to afford the efficient management of fuel supply for generation, it is treated as a fuel cost and charged to FERC 547. An adjustment to remove these costs from "actuals" was required for the PCA since PSE was (and will be until new rates are set for the 2017 GRC) treating JP storage costs as a fixed component in Production O&M as approved in the baseline rate from the 2014 PCORC. A total of $785,784 was removed from the PCA allowed costs between April and December 2016.

PSE agreed to accommodate Phillip 66's request to sell steam from the Ferndale unit and in December 2016 a transaction was completed for $250,000. The FERC account to which the steam sales were recorded, FERC Account 456 Other Electric Revenues, is not a defined component of the PCA. Therefore, PSE made an adjustment to total actual power costs in the PCA so that both the costs and related revenues (reduction to power costs) are considered when tracked against the baseline revenues.

Q. **Please explain the adjustment of costs outside of the PCA 15 period.**

A. In accordance with the Settlement Stipulation adopted in Order 04 in WUTC Docket UE-031389, variable costs incurred may be adjusted for items pursuant to the Methodology for Adjustments of Costs Outside of the PCA Period ("Restatement Methodology"), which is provided as the Third Exhibit to my testimony as Exh. KJB-4. Adjustments or true-ups greater than $1 million that relate to prior PCA periods will be flowed through a recalculation of the previous PCA periods impacted.

In early 2016, PSE discovered that energy usage was not being billed as a result of a meter installation done in 2013. Accordingly, in August of 2016, PSE re-billed the customer being served on the meter, for 23,529,960 KWhs used between July 2013 and May 2016, with the lump sum recorded in August 2016. This adjustment impacts total delivered load, and therefore impacts the baseline power cost amount, the amount that is subtracted from the total allowed power costs in Schedule B, in order to calculate the PCA imbalance. Because the total adjustment to delivered load resulted in an adjustment to the baseline power cost amount of $1,421,025, this adjustment qualified under the Restatement Methodology for restatement of prior PCA periods. Changes to the customer deferrals from the prior periods are indicated in a reconciliation shcedule for deferrals by PCA period in Tab I of the workpapers supporting this filing.

Q. Does this conclude your testimony?

A. Yes, it does.