EXHIBIT NO. ___(KJB-1T)
DOCKET NO. UE-12____
WITNESS: KATHERINE J. BARNARD

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Petition of **PUGET SOUND ENERGY, INC.** **for Approval of a Power Purchase Agreement for Acquisition of Coal Transition Power, as Defined in RCW 80.80.010, and the Recovery of Related Acquisition Costs**	**Docket No. UE-12____**

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

AUGUST 20, 2012

PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF KATHERINE J. BARNARD

CONTENTS

I. INTRODUCTION 1

II. PROPOSED RECOVERY METHODOLOGY FOR COSTS ASSOCIATED WITH THE COAL TRANSITION PPA 2

III. CONCLUSION..6

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 of State Regulatory Affairs for Puget Sound Energy, Inc. ("PSE").

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

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

Q. What is the nature of your prefiled direct testimony in this proceeding?

A. This prefiled direct testimony describes the proposed recovery methodology for the costs associated with the proposed 11-year power purchase agreement (the "Coal Transition PPA") with TransAlta Centralia Generation LLC ("TransAlta Centralia") for up to 380 megawatts ("MW") of transition coal power supplied from Centralia Transition Coal Facility and the approvals and determinations sought by PSE in this proceeding.

II. PROPOSED RECOVERY METHODOLOGY FOR COSTS ASSOCIATED WITH THE COAL TRANSITION PPA

Q. Please describe the proposed recovery methodology for costs associated with the Coal Transition PPA that PSE requests in this proceeding.

A. The proposed recovery methodology for costs associated with the Coal Transition PPA consists of two separate expenses.

The first expense is the cost per megawatt-hour ("MWh") of energy. TransAlta Centralia will bill this expense, and PSE will record in FERC Account 555, Purchase Power. PSE will (i) pro form this cost into power costs in the same manner as PSE pro forms costs associated with other power purchase agreements and (ii) treat this cost in PSE's Power Cost Adjustment ("PCA") mechanism in the same manner as PSE treats costs associated with other power purchase agreements.

The second expense associated with the Coal Transition PPA is the equity return component discussed in the Prefiled Direct Testimony of Mr. Roger Garratt, Exhibit No. ___(RG-1HCT). PSE will pro form this cost per MWh into power costs in general rate case or power cost only rate case filings because there are no billings associated with this expense. PSE will account for the costs associated with the equity return component on Schedule B-1 of the PCA mechanism.

Q. How will PSE account for the costs associated with the equity return component on Schedule B-1 of the PCA mechanism?

A. PSE will treat the costs associated with the equity return component in a manner similar, but with an opposite impact, to the costs associated with the Tenaska and March Point II disallowances. On Schedule B-1, PSE will show the increase in power costs associated with the equity return component as a variable cost adjustment on one of the lines designated as rows 43 through 53. These rows adjust the variable costs associated with power costs not represented in actual expenses booked to the power cost accounts.

This is similar to the Tenaska and March Point II disallowances in that those reduction in costs were not recorded in the power cost accounts. Therefore, it was necessary to show those regulatory reductions in costs on the lines designated as rows 43 through 53 of Schedule B-1.

By including the costs associated with the equity return component on the lines designated as rows 43 through 53 of Schedule B-1, the PCA mechanism will account for the total costs associated with the Coal Transition PPA. This type of adjustment is necessary to make actual expenses, which do not include regulatory adjustments, match the recovery built into rates.

Q. How does PSE propose to record the costs associated with the Coal Transition PPA that are not included in rates?

A. PSE proposes to defer costs associated with the Coal Transition PPA that are not included in rates in a similar manner as PSE deferred the costs associated with the Goldendale Generating Station in Docket UE-070533. The deferral of costs associated with the Coal Transition PPA would include both the contracted purchase price and the costs of the equity return component associated with the Coal Transition PPA prior to the initial contract being included in rates. Additionally, PSE proposes to accrue interest on the deferred amounts, at PSE's net of tax rate of return for the period, currently 6.71%. A similar deferral would also be used to adjust the yearly increases in contracted power and price increases that are discussed in the Prefiled Direct Testimony of Mr. Roger Garratt, Exhibit No. ___(RG-1HCT). Upon Commission approval of the petition for approval of the Coal Transition PPA, PSE will defer those costs, including interest, in a regulatory asset account.

Prior to the contract being included in rates, PSE will credit FERC Account 555, purchased power, for the costs of the Coal Transition PPA (including the equity return component) and charge, or debit, the regulatory asset account. PSE will make an offsetting power cost entry to credit the regulatory asset account and debit FERC Account 555, purchased power, for the cost of secondary purchases built into rates for the month that PSE books the entries. By making this second entry, PSE provides customers with a reduction in the cost of the Coal Transition

PPA equivalent to the costs included in current rates for purchased power displaced by the Coal Transition PPA.

To account for the yearly price increases, PSE will credit FERC Account 555 for the incremental costs associated with the Coal Transition PPA. There will be an offsetting entry for the decrease in purchased power as the power delivered under the contract is increased.

PSE would not start booking these deferrals until December 2014 when the contracted volumes begin to flow. A deferral will continue until the date when new rates that address the costs being deferred take effect, and this deferral process will continue throughout the term of the PPA as volumes and prices change in accordance with the terms of the PPA.

Q. How will PSE recognize this accounting in the PCA mechanism prior to the next power cost update?

A. PSE will include the credit to FERC Account 555, purchased power, for the Coal Transition PPA and the equity return component, plus the charge for the offsetting purchased power cost described above, in the PCA true-up. Because the equity return component of this adjustment is not included in actual costs, PSE will reflect this cost on Schedule B-1, as described earlier, upon Commission approval of the Coal Transition PPA. PSE will reflect this equity return adjustment on Schedule B-1 for the duration of the Coal Transition PPA.

Q. Is PSE proposing an adjustment to the current PCA Baseline Rate?

A. No. PSE is deferring the costs of the Coal Transition PPA until PSE's next general rate case or power cost only rate case. Therefore, there is no adjustment needed to the Baseline Rate for the Coal Transition PPA at this time. As discussed earlier, there is an adjustment required on Schedule B-1 for PCA tracking purposes during the deferral and actual recovery period for the Coal Transition PPA when receipt of power commences.

III. CONCLUSION

Q. Does this conclude your testimony?

A. Yes.