

**EXH. PSE-1JT
DOCKETS UE-170033/UG-170034
2017 PSE GENERAL RATE CASE
WITNESS: KATHERINE J. BARNARD
SUSAN E. FREE
JON A. PILIARIS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Docket UE-170033
Docket UG-170034**

**JOINT TESTIMONY
(NONCONFIDENTIAL) OF**

KATHERINE J. BARNARD, SUSAN E. FREE AND JON A. PILIARIS

**ON BEHALF OF PUGET SOUND ENERGY IN SUPPORT OF THE
MULTIPARTY SETTLEMENT STIPULATION AND AGREEMENT**

SEPTEMBER 15, 2017

PUGET SOUND ENERGY
JOINT TESTIMONY
(NONCONFIDENTIAL) OF
KATHERINE J. BARNARD, SUSAN E. FREE, AND JON PILIARIS
SUPPORTING THE MULTIPARTY SETTLEMENT STIPULATION AND
AGREEMENT

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1 **PUGET SOUND ENERGY**

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4 **SUPPORTING THE MULTIPARTY SETTLEMENT STIPULATION AND**
5 **AGREEMENT**

6 **I. INTRODUCTION**

7 **Q. Are you the same Katherine J. Barnard who submitted prefiled direct**
8 **testimony on January 13, 2017, prefiled supplemental direct testimony on**
9 **April 3, 2017, and prefiled rebuttal testimony on August 9, 2017, on behalf of**
10 **Puget Sound Energy (“PSE”) in this proceeding?**

11 **A. Yes.**

12 **Q. Are you the same Susan E. Free who submitted prefiled direct testimony on**
13 **January 13, 2017, prefiled supplemental direct testimony on April 3, 2017,**
14 **and prefiled rebuttal testimony on August 9, 2017, on behalf of PSE in this**
15 **proceeding?**

16 **A. Yes.**

17 **Q. Are you the same Jon A. Piliaris who submitted prefiled direct testimony on**
18 **January 13, 2017, prefiled supplemental direct testimony on April 3, 2017,**
19 **prefiled rebuttal testimony on August 9, 2017, and prefiled supplemental**
20 **rebuttal testimony on August 15, 2017, on behalf of PSE in this proceeding?**

21 **A. Yes.**

1 **Q. What is the purpose of your joint testimony?**

2 A. This joint testimony addresses PSE’s support for the Multiparty Settlement
3 Stipulation and Agreement (“Settlement”) filed with the Commission on
4 September 15, 2017. In addition to PSE, the following parties have joined in the
5 Settlement: Commission Staff, the NW Energy Coalition/Renewable
6 Northwest/Natural Resource Defense Council, the Industrial Customers of
7 Northwest Utilities (“ICNU”), the Northwest Industrial Gas Users (“NWIGU”),
8 The Energy Project, Federal Energy Agency (“FEA”), Sierra Club, Kroger, the
9 State of Montana (hereafter “Settling Parties”). Public Counsel has not joined the
10 Settlement.

11 The Settling Parties filed a Joint Memorandum in Support of Multiparty
12 Settlement on September 15, 2017 (“Joint Memorandum”). This Joint Testimony
13 supplements the Joint Memorandum and sets forth PSE’s testimony as to why the
14 Settlement is supported by PSE, is in the public interest, and should be approved
15 by the Commission. Mr. Piliaris addresses the decoupling and electric cost of
16 service, rate spread, and rate design issues that are included in the Settlement.
17 Ms. Free addresses environmental remediation cost recovery. Ms. Barnard
18 addresses all other issues addressed in the Settlement.

1 **II. THE SETTLEMENT SATISFIES PSE'S INTEREST AND**
2 **THE PUBLIC INTEREST**

3 **A. Summary of the Key Provisions of the Settlement From PSE's**
4 **Perspective**

5 **Q. Ms. Barnard, why is PSE supporting the Settlement?**

6 A. The Settlement reflects a fair and reasonable resolution of several significant
7 issues in this case. PSE and the Settling Parties have compromised to reach a fair,
8 just, reasonable, and sufficient revenue requirement and cost of capital for PSE.

9 Some of the other key elements of the Settlement, from PSE's perspective, are as
10 follows:

- 11 • The Settlement provides a means to fund the unrecovered plant
12 balances and future decommissioning and remediation costs
13 associated with the Colstrip Generating Plant by repurposing the
14 existing hydro-related Treasury Grants and Production Tax Credits
15 ("PTCs"). Both customers and PSE benefit from the certainty of
16 funds available to address these looming costs while minimizing
17 the negative rate impacts and intergenerational inequities that
18 could otherwise occur.

- 19 • The Settlement retains the current Storm Deferral mechanism with
20 only minor modifications. These modifications include
21 (i) increasing from \$8 million to \$10 million the annual threshold
22 that must be reached before qualifying storms can be deferred, and
23 (ii) adding the qualification that only those qualifying storms with
24 costs that meet or exceed \$500,000 can be deferred. Additionally,
25 PSE will amortize all qualifying storms included in this Settlement
26 and be allowed to defer any qualifying storms between the
27 Settlement Date (September 15, 2017) and the start of the revised
28 mechanism under the provisions of the old mechanism, in the
29 manner set forth in the Settlement.

- 30 • The Settlement acknowledges the prudence of a number of
31 projects, including the development and construction of the
32 Ardmore Substation, the Snoqualmie Falls hydroelectric
33 redevelopment project, the acquisition of the Buckley Natural Gas
34 Distribution system, the acquisition and development of the

1 Glacier Battery Storage System, the acquisition of additional
2 transmission capacity from Bonneville Power Administration for
3 the Goldendale and Mint Farm Generation facilities, as well as the
4 renewal of the Wells Hydro purchase power agreement, the
5 renewal of several agreements with from Bonneville Power
6 Administration for transmission capacity, and the environmental
7 remediation costs.

- 8 • PSE will be authorized to file an expedited rate filing (“ERF”) in
9 2018, which will be similar in process to the ERF filing PSE made
10 in 2013. The expedited rate filing lessens, but does not remove,
11 regulatory lag. The parties have agreed to support a procedural
12 schedule that allows rates to take effect within 120 days after
13 filing. Any subsequent ERF or limited rate proceedings filed by
14 PSE will be consistent with the rules or policy statement provided
15 in Docket A-130355.

- 16 • Another key aspect from PSE’s perspective is the amortization of
17 environmental remediation costs and the treatment of recoveries.
18 No party is challenging the prudence of the costs for environmental
19 remediation. PSE has optimized its recovery of insurance policies
20 and third-party recoveries on many of its projects related to past,
21 current and future remediation costs, and in the allocation of the
22 proceeds has recognized the application of a portion of these
23 proceeds against future costs. This allocation is balanced with the
24 Settlement requirement to work with Commission Staff to
25 determine a mutually agreeable approach to implement in the next
26 proceeding for allocating proceeds in the future.

27 **B. Resolution of Colstrip Issues**

28 **Q. Why is the settlement of issues related to Colstrip important to PSE?**

29 A. The Settlement provides an elegant solution to a number of issues with which the
30 Commission, PSE, and interested stakeholder have been grappling for several
31 years with respect to the Colstrip Generating Plant in Colstrip, Montana. PSE and
32 the Settling Parties have worked together to craft a settlement that addresses key
33 issues such as: (i) undepreciated plant balances, (ii) depreciation schedule,
34 (iii) funding of decommissioning and remediation, and (iv) transition of the

1 Colstrip community, in a way that does not have significant rate impacts on
2 customers. The uncertainty surrounding future environmental regulations and the
3 continued economic viability of Colstrip make it necessary to mitigate these risks
4 today. The repurposing of the Treasury Grants related to PSE's hydroelectric
5 plants and the PTCs that are expected to be monetized over the next decade
6 allowed PSE and the Settling Parties to address these important issues without
7 significantly increasing rates. The fact that many parties with contrasting
8 viewpoints are able to come together to support the Settlement is a testament to
9 the hard work and determination of the Settling Parties to find creative and
10 innovative solutions to address these pressing issues.

11 **Q. Please elaborate on how PSE intends to use the Treasury Grants and PTCs**
12 **that are to be set aside for the Colstrip Generating Plant.**

13 A. The existing \$95 million in hydro-related Treasury Grants addresses nearly all of
14 the estimated decommissioning and remediation costs for Colstrip Units 1 and 2
15 and therefore will be placed in a retirement account established under
16 RCW 80.84.020(2)(a) that is designated solely for decommissioning and
17 remediation costs associated with Colstrip Units 1 and 2. Based on the average of
18 the monthly averages balances in 2016, the PTCs available are estimated at
19 approximately \$280 million¹, and \$5 million of these PTCs will be contributed to
20 a community transition fund for Colstrip, Montana. Additionally, a portion of the
21 monetized PTCs will be used to fund the unrecovered plant balances of all the

¹ See Marcellia, Exh. MRM-1T at 9:Table 1.

1 units of the Colstrip Generating Plant, and the remaining monetized PTCs are
2 available to fund additional decommissioning and remediation, if needed, after the
3 \$95 million in Treasury Grants has been used.

4 **Q. How does the use of PTCs to address Colstrip end of service issues avoid**
5 **intergenerational inequities?**

6 A. Customers received the benefit of lower depreciation rates for all four units of the
7 Colstrip Generating Plant during the 2009² through 2017 period due to the
8 extension of the assets depreciable life to 60 years, as proposed by Public Counsel
9 and Commission Staff in the 2007 general rate case, and as ultimately agreed to
10 by PSE in the settlement of that case. This contributed to the undepreciated plant
11 balance for Colstrip Units 1 and 2 that we now face, with Colstrip Units 1 and 2
12 scheduled to close no later than 2022. The time period when the depreciable lives
13 were extended closely aligns with the period that the PTCs were generated;
14 however, due to ongoing net operating losses PSE has not been able to be utilize
15 these PTCs on its tax return and customers have not yet received the benefit of
16 these credits. The use of some of the monetized PTCs to address the
17 undepreciated balance of Colstrip units is a reasonable approach, and it allows the
18 credits earned over this time period to pay for the undepreciated plant balance that
19 accrued over approximately the same time period. This use of PTCs, along with
20 the realignment of the depreciation life for Colstrip Units 3 and 4 to December 31,

² The depreciation rates approved in Docket UE-072300 became effective in November 2008.

1 2027, is a way to minimize any future intergenerational inequities that could
2 occur should circumstances change that further shorten the life of any of the
3 Colstrip units.

4 **Q. Is the 2027 depreciation date for Colstrip Units 3 and 4 intended to be a**
5 **retirement date for those units?**

6 A. No, PSE is not the sole owner of Colstrip Units 3 and 4 and cannot unilaterally set
7 a retirement date for Colstrip Units 3 and 4. The 2027 depreciation date is a
8 stipulated depreciation date for purposes of this Settlement Agreement. However,
9 as previously noted, the 2027 depreciation date helps to lessen the risk of
10 repeating the situation that arose with Colstrip Units 1 and 2 in 2008, when the
11 assets' depreciable lives were extended, resulting in an undepreciated plant
12 balance for those units at the time of retirement.

13 **C. Continuation of the Storm Deferral Mechanism**

14 **Q. Why is the retention of the Storm Deferral mechanism important to PSE?**

15 A. Major storm events cause significant disruption in service and require PSE to
16 focus substantial resources on timely storm repair. Timely storm response, repair
17 and resolution of outages is very important to customers and PSE. Because much
18 of PSE's service territory is located in the Puget Sound Convergence Zone and is
19 subject to frequently severe weather, recovery of qualifying storm costs is an
20 important issue for PSE. The Storm Deferral mechanism allows PSE to focus on
21 the business of responding to storms and restoring service when major storms

1 strike, and provides a mechanism for deferral and recovery of prudently incurred
2 costs resulting from PSE's response to major storms.

3 **Q. Why are the changes to the Storm Deferral reasonable?**

4 A. The increase to the cumulative annual cost threshold for deferring storms is
5 appropriate because PSE's level of normal storm costs being recovered in rates
6 has increased to approximately \$10 million as compared to the \$8 million level of
7 normal storm costs that was presented in PSE's 2011 general rate case.
8 Additionally, in response to Commission Staff's concern that too many storms are
9 being deferred, PSE agreed that any otherwise qualifying storm that does not
10 result in at least \$500,000 in costs would not be subject to deferral in the Storm
11 Deferral mechanism in the future.

12 **Q. Are there other noteworthy aspects of the Storm Deferral from PSE's**
13 **perspective?**

14 A. Yes. PSE will calculate normalized operating income, for purposes of PSE's
15 Earnings Sharing Mechanism, by removing the storm normalization adjustment
16 from PSE's annual Commission Basis Report. This allows sharing to be based on
17 a more accurate reflection of these highly variable costs which if normalized,
18 would not properly reflect the economic reality which occurs during the sharing
19 period.

1 **D. Expedited Rate Filing in 2018**

2 **Q. Is the 120-day time frame for an ERF reasonable?**

3 A. Yes. The expedited rate filing is intended to be only a limited update and will
4 utilize the Commission Basis Report format that is well established and includes
5 only limited restating adjustments with consistent methodologies. By removing
6 power costs and pro forma adjustments, which typically are more contentious, the
7 expedited timeline is reasonable.

8 **E. Recovery of Deferred Environmental Remediation Costs**

9 **Q. Ms. Free, can you elaborate on the treatment of environmental remediation**
10 **costs and the treatment of recoveries that is agreed to in the Settlement?**

11 A. Yes. The parties have agreed to the electric and gas adjustments PSE proposed for
12 environmental remediation costs and recoveries. PSE's adjustments provide for a
13 percentage of the insurance and third-party recoveries associated with the
14 environmental remediation costs to continue to be deferred in order to be used to
15 offset future environmental remediation costs that are covered under these
16 insurance policies. Providing all of the recoveries in this case would not provide a
17 proper matching of the underlying costs for which the recoveries were received.
18 The insurance policies and third-party recoveries PSE has obtained are intended
19 to cover costs for past, present, and future environmental remediation on the
20 covered sites. Applying all of these proceeds to past and current costs would
21 unnecessarily harm future customers who would be responsible for paying for

1 remediation costs without receiving the offsetting benefit of related insurance
2 recoveries.

3 **Q. Are there further steps that PSE has agreed to take with respect to assigning**
4 **insurance recoveries?**

5 A. Yes. To address concerns raised by Commission Staff and other parties, PSE and
6 Commission Staff will commence a process to determine a methodology for
7 assigning insurance recoveries received by PSE in a manner that does not
8 potentially compromise PSE's litigation position associated with such insurance
9 recoveries. PSE and Commission Staff will provide an update regarding such
10 process in PSE's next general rate case or ERF, whichever is filed first. PSE has
11 also agreed to revise its reporting format on environmental remediation costs and
12 recoveries.

13 **F. Decoupling**

14 **Q. Mr. Piliaris, does the Settlement address decoupling?**

15 A. Yes, the Settlement addresses a very narrow issue relating to decoupling—the
16 inclusion of fixed production costs in the decoupling mechanism. Still being
17 litigated are several proposals with respect to whether decoupling should
18 continue, the customer groups that should remain in decoupling, as well as other
19 issues regarding the mechanics of the decoupling mechanisms that PSE and other
20 parties have raised. Regardless of how the Commission rules on the other
21 decoupling issues being litigated, the Settlement provides that fixed production

1 cost recovery will be included in the electric decoupling mechanism, should it be
2 allowed to continue. The total allowed revenue for fixed production costs per
3 decoupled group will be set at the level the Commission authorizes in this general
4 rate proceeding.

5 **Q. Why is it appropriate to include fixed production costs in the decoupling**
6 **mechanism?**

7 A. There are several reasons why it is appropriate to include fixed production costs
8 in the decoupling mechanism. First, the inclusion of these costs in the decoupling
9 mechanism furthers the Commission's goal to remove the throughput incentive.
10 Second, PSE, Public Counsel and Commission Staff entered into a Settlement
11 Agreement, approved by the Commission, which, among other things, moved
12 fixed costs out of PSE's Power Cost Adjustment mechanism, with the
13 understanding that if decoupling were to continue after review in this general rate
14 case, the fixed production costs should be included in the decoupling mechanism.
15 Therefore, this provision of the Settlement is consistent with the PCA settlement,
16 which was approved by the Commission in Order 11 in Docket UE-130617.

17 **G. Rate Spread and Rate Design**

18 **Q. Does the Settlement address rate spread and rate design?**

19 A. The Settlement addresses some, but not all, rate spread and rate design issues for
20 electric service. The Settlement does not address any gas cost of service, rate
21 spread or rate design issues. The electric and gas issues not addressed in the

1 Settlement are being litigated. PSE looks forward to working with other interested
2 parties in the generic cost of service workshops commenced by Commission
3 Staff. Many of the issues that are being litigated in this case will receive further
4 attention by interested stakeholders in that process.

5 **Q. Please briefly describe the electric rate spread and rate design elements of**
6 **the Settlement.**

7 A. The Settlement provides that several non-residential customer classes that are
8 above parity will receive a lower allocation of PSE's electric revenue deficiency
9 than originally proposed by PSE. Specifically, Schedules 7A, 10, 11, 12, 25, 26,
10 29, 31, 46, and 49 will be allocated 65 percent of the average rate increase, rather
11 than the 75 percent proposed by PSE. In addition, the Settlement adopts certain
12 proposals made by The Kroger Company with respect to Schedule 25, increases
13 the demand charges for Schedules 46 and 49 proposed by Commission Staff, and
14 provides for a revenue adjustment for applicable Schedule 40 customers related to
15 the Ardmore Substation costs. The Ardmore Substation adjustment is a one-time
16 adjustment. While parties reserve the right to address the issue of Ardmore
17 Substation cost allocation in subsequent proceedings, the parties have agreed to
18 the prudence of the costs of the Ardmore Substation and that issue should not be
19 raised in future cases.

20 **Q. Please address the changes to Schedule 40 and the Microsoft Recalculation.**

21 A. The parties have agreed to discontinue Schedule 40 over a period of time.
22 Schedule 40 will be closed to new customers effective with the date of the

1 settlement, and existing customers taking service under Schedule 40 may remain
2 on Schedule 40 for a period no later than the effective date of the tariffs resulting
3 from PSE's next general rate case. With respect to Microsoft's removal from
4 Schedule 40 and transition to a special contract, which may occur prior to the
5 effective date of the tariffs in PSE's next general rate case, the Settlement
6 provides that PSE will recalculate the allowed revenue per customer for other
7 schedules consistent with the contingent allowed revenue calculations in
8 Exhibit JAP-43 for all customers that continue to be a part of PSE's electric
9 decoupling mechanism.

10 **H. Black Box Adjustments**

11 **Q. Ms. Barnard, what is the purpose of the Black Box adjustments addressed in**
12 **the Settlement?**

13 A. The Black Box adjustments are intended to address all remaining electric and
14 natural gas revenue requirement issues that differ from PSE's rebuttal case The
15 Black Box adjustment is intended to be a compromise of various issues raised,
16 without specifically identifying those issues or adopting new or different
17 methodologies. The Black Box adjustment decreases the revenue requirement for
18 electric operations by \$1 million and decreases the natural gas revenue
19 requirement by \$1.5 million.

1 **I. The Settlement is in the Public Interest**

2 **Q. Why does the Settlement satisfy the public interest?**

3 A. As discussed above, the Settlement brings together a number of parties with
4 differing viewpoints who have together worked to achieve a solution to several
5 challenging issues relating to the Colstrip Generating Plant. The Settlement
6 provides a creative way to address costs related to the ultimate closure of the
7 Colstrip units—including depreciation, unrecovered plant balance, and
8 decommissioning and remediation—without significantly impacting customer
9 rates.

10 Additionally, as part of the Settlement, PSE has agreed to engage in a process
11 with stakeholders to develop a community transition plan, including a funding
12 mechanism, to address the transitioning of PSE’s interest in the community of
13 Colstrip, Montana. PSE’s shareholders have agreed to contribute \$5 million to
14 assist in the community transition as Colstrip units retire. An additional \$5 million
15 in monetized PTCs will be contributed to the account for a total contribution of
16 \$10 million. This significant contribution is in addition to the taxes PSE has paid
17 to the State of Montana for several decades, and the jobs PSE and its co-owners
18 have created in Montana. The \$10 million can be used to facilitate the transition
19 of the Colstrip community with the closing of Colstrip Units 1 and 2, as well as
20 the closing of Colstrip Units 3 and 4, in the future. From PSE’s perspective, this
21 \$10 million contribution is intended to supplement the \$1 billion held by the State
22 of Montana in the Coal Severance Trust Fund, a portion of which should also be
23 used for the benefit of the Colstrip community.

1 In addition to the benefits discussed above, the proposed Settlement satisfies the
2 public interest because it will result in overall rates that are fair, just, reasonable
3 and sufficient. In terms of customer benefits, the natural gas rates that will result
4 from this agreement will provide an immediate overall rate reduction of
5 3.8 percent to PSE customers, which is beyond the decreases proposed by PSE in
6 its direct and rebuttal filing. The resulting increase to overall electric rates is less
7 than those proposed by PSE in its direct and rebuttal filing and represents an
8 approximate one percent increase in overall electric rates compared to the
9 2.7 percent increase proposed by PSE in its rebuttal filing.

10 Additionally, the Settlement provides additional annual funding for the Home
11 Energy Lifeline Program (“HELP”) low-income energy assistance program,
12 modifies the distribution between electric and gas customers and allows certain
13 HELP customers to certify their eligibility for a two-year period. Allowing
14 customers to certify their eligibility for two years is expected to help limited
15 mobility customers and potentially reduce the administrative burden of the
16 Agencies. The Settlement also provides additional funding for low-income
17 weatherization including an agreement by PSE to extend the annual \$100,000
18 contribution of shareholder funds to low-income weatherization. This
19 commitment will continue until PSE’s next general rate case.

20 III. CONCLUSION

21 **Q. Does this conclude your Joint Testimony?**

22 A. Yes.