EXHIBIT NO. ___(KJB-1T)
DOCKET NO. UE-14____
PCA 12 COMPLIANCE
WITNESS: KATHERINE J.BARNARD

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of **PUGET SOUND ENERGY, INC.** **For Approval of its March 2014 Power Cost Adjustment Mechanism Report**	**Docket No. UE-14____**

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

MARCH 31, 2014

PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF KATHERINE J. BARNARD

I. INTRODUCTION 1

II. BACKGROUND REGARDING THE PCA MECHANISM 2

III. PCA PERIOD 12 ACCOUNTING 6

IV. ADJUSTMENT OF COSTS MADE UNDER THE RESTATEMENT METHODOLOGY 11

V. CONCLUSION 14

PUGET SOUND ENERGY, INC.

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, Inc. ("PSE").

Q. What is your educational and professional experience?

A. The First Exhibit to my Prefiled Direct Testimony, Exhibit No. ___(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 department at PSE.

Q. What is the purpose of this filing?

A. In accordance with the Commission's Twelfth Supplemental Order in Docket No. 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 No. UE-011570, the annual PCA true-up filings are due by the end of each March for the prior PCA calendar year. Through its Petition, PSE is requesting approval of its PCA Mechanism Report ("PCA Annual Report") for the Twelve Months Ended December 31, 2013 ("PCA Period 12"). The PCA Annual Report is provided in this filing as the Second Exhibit to my testimony, Exhibit No. ___(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. This mechanism accounts for a sharing of costs and benefits that are graduated over four levels of power cost variances. The Settlement Stipulation approved in the Commission's Twelfth Supplemental Order in Docket No. UE-011570 defines the specific sharing levels and conditions. The Settlement Stipulation is attached as Exhibit A to the Petition.

Q. Please describe the categories of power costs that are included in the PCA Mechanism.

A. 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. 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, property taxes and insurance. 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. In the Commission's Final Order Authorizing Rates, Order No. 07 in Docket No. UE-130137 and UG-130138, (*consolidated*), PSE received Commission approval to recover its property taxes through a Property Tax Tracker. Therefore, to transition the recovery of its production related property taxes from the PCA mechanism to the Property Tax Tracker, PSE removed property taxes from the revenue requirement and resultant baseline rate in its 2013 power cost only rate case in Docket No. UE-130617 ("2013 PCORC") - the rates and baseline rate for which became effective during

PCA Period 12 on November 1, 2013. Accordingly, effective with that date, production related property taxes are no longer included as a fixed cost in the PCA mechanism.

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, 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, Exhibit No. ___(KJB-3).

Adjustments to Variable Costs:

The following are adjustments as determined in Docket No. UE-011570 that were applicable to PCA Period 12:

<u>Adjustments reflected on Exhibit B:</u>

1) Colstrip Availability adjustment is applied 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 12 and the

supporting calculations are included in the workpapers submitted with this filing.

2) 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 12 as is discussed later in my testimony.

Adjustments not reflected on Exhibit B:

1) Section C.1.: 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 Exhibit No. ___(KJB-4). During PCA Period 12, there were no adjustments that required restatement of prior periods pursuant to this methodology.

2) Section C.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 three such adjustments in PCA Period 12 that are discussed in more detail later in my testimony.

Other:

As a result of the settlement in the 2013 PCORC, PSE, Commission Staff, Public Counsel and the Industrial Customers of Northwest Utilities (“Parties”) have been engaged in a collaborative process related to PSE’s PCA mechanism.[1] Portions of the collaborative have been focused on the numbering and labeling of PSE’s PCA Exhibits. While much progress has been made in this area, neither a formal agreement nor a Commission order has been reached. Accordingly, PSE is filing its exhibits and work papers in this filing in the same manner it has in previous PCA compliance filings.

[1] See Paragraph 25 in Appendix A to Final Order 06 in Docket No. UE-130617.

III. PCA PERIOD 12 ACCOUNTING

Q. Please explain how PSE has tracked its PCA Period 12 power costs.

A. There were no significant changes to the PCA Mechanism during PCA Period 12. Each month PSE calculates the power costs subject to PCA sharing using the same methodology shown in PCA Exhibit B from the original PCA Mechanism filing.[2] 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 PCA Mechanism. Any difference allocated to the 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 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.

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[2] *See* Exhibit A to the Petition.

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 12?

A. Yes, from January 1, 2013 through October 31, 2013, the baseline power cost rate was $62.101 per MWh. This baseline rate was approved in Docket No. UE-111048, PSE's 2011 general rate case, and has been in effect since May 14, 2012. The baseline power cost rate for this period is found on page 21of Exhibit No. ___(KJB-3).

From November 1, 2013 through December 31, 2013, the baseline power cost rate was $60.736 per MWh. The change to the baseline rate was approved in PSE's 2013 PCORC. The baseline power cost rate for this period is found on page 10 of Exhibit No. ___(KJB-3).

Q. What is the actual average power cost rate experienced for PCA Period 12?

A. As shown on page 5 (Exhibit A-1 Power Cost Rate Updated) of Exhibit No. ___(KJB-3), the calculated average power cost rate experienced for PCA Period 12 is $60.054 per MWh.

Q. Why did the actual average power cost rate differ from the baseline power cost rates in effect during PCA Period 12?

A. The actual average power cost rate differed from the baseline power cost rates in effect during PCA Period 12 due to changes only in the variable components of the PCA mechanism, which are discussed in the confidential prefiled direct testimony of Mr. David E. Mills, Exhibit No. ___(DEM-1CT). The calculated actual average power cost rate does 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 2011 general rate case and 2013 PCORC for the appropriate months of PCA Period 12.

Q. How did the actual power costs compare to the average baseline power cost rates in effect during PCA Period 12?

A. Actual power costs were lower than the average baseline power cost rates in effect during PCA Period 12 by $37,811,938 (after adjustment for Firm Wholesale). PSE's share of this over-recovery of power costs is $28,905,969. The customers' share of this over-recovery of power costs is $8,905,969.

Q. What is the distribution of the resulting cumulative imbalance for sharing at the end of PCA Period 12?

A. Considering the activity that occurred in PCA Period 12, the cumulative imbalance for sharing at the end of PCA Period 12 for PCA Periods 1 through 12 was an over-collection of $35,537,628. PSE's share of this imbalance was a credit of $29,281,607, with the remaining $6,256,021 assigned to the customer: *See* Exhibit No. ___(KJB-3), page 4.

Adjustments to PCA variable costs in PCA Period 12.

Q. Please explain Exhibit G and its purpose in the PCA Mechanism.

A. Under the PCA Mechanism, new resources with a term *less* than or equal to two years are included in allowable PCA costs. The prudence of such resources is determined in the Commission's review of the annual PCA true-up. Power costs related to a new electric resource with a term of *greater* than two years are included in allowable PCA costs through a bridge mechanism, known as PCA Exhibit G, "New Resource Adjustment". Exhibit G reduces the variable costs of the new resources to the lower of actual unit cost or the baseline rate until the prudence of such resources can be reviewed and approved in a power cost only or general rate case.

Q. Were there any PCA Exhibit G adjustments necessary in PCA Period 12?

A. No, there were no new resources in PCA Period 12 that required an adjustment under Exhibit G.

Q. Are there new resources with a term of greater than two years that were acquired but that were not included in the baseline rate at any point during PCA Period 12?

A. Yes. Three resources with terms of greater than two years became effective in PCA Period 12.

1. The first resource was the Baker River Hydroelectric Power House which includes the Lower Baker Floating Surface Collector, which went into commercial operation on February 14, 2013, and the Lower Baker Powerhouse, with commercial operations on July 25, 2013.

2. The second resource was the Snoqualmie Falls Hydroelectric Redevelopment Project which includes the Diversion Dam that went into commercial operation on October 31, 2012, plant 1 with commercial operations on September 5, 2013 and plant 2, with an in service date of April 17, 2013.

3. The third resource was the Ferndale Cogeneration Station which PSE acquired on November 15, 2012.

Q. Were these resources subject to analysis under Exhibit G?

A. No. All of these resources qualify for deferral under RCW 80.80.060 (6). For each of these three resources, PSE filed notification with the Commission of its intent to defer costs. When deferring costs for these resources, PSE removes all costs associated with the resources and substitutes in the costs for purchased power that were approved in the rates in effect during the deferral period[3], and credits the deferral for these costs. This calculation is based on the run time of the facilities multiplied by the costs of purchased power that were approved but no longer need to be purchased. This provides the customer the benefit of an offset to the deferral for the costs already in rates and puts that cost back into power costs for PCA review. All actual costs that are associated with Baker, Snoqualmie and Ferndale are removed from the Income Statement – and thus removed from the PCA total allowable costs – and the costs that were originally allowed for purchased power have been restored as if the resources were not available. Also of note is that, even if the variable cost for these resources had

[3] Rates in effect during the Baker, Snoqualmie and Ferndale deferral periods were from PSE's 2011 general rate case, Docket No. UE-111048.

not been deferred as described, they would have been less than the baseline power cost rate, and therefore, no Exhibit G adjustment would have been warranted.

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 12?

A. There were three adjustments made to SAP variable costs during PCA Period 12. As stated above, there were no adjustments made in PCA Period 12 that required restatement of prior periods under section C.1. of the Restatement Methodology. All three adjustments made to SAP variable costs during PCA Period 12 did not meet the requirements for restatement of prior periods, and thus were flowed through the PCA calculation in the PCA Period 12 month in which they were identified as governed by section C.2. of the Restatement Methodology. A description of these three adjustments follows and additional support for each of these adjustments is included in the detailed work papers filed in support of my Exhibit No. ___(KJB-3):

1) Cedar Hills Gas Costs: In February 2011, PSE entered into an arrangement with King County that gave PSE all rights to the renewable attributes of the pipeline quality natural gas from the Cedar Hills project. Obtaining the environmental attributes of the Cedar Hills pipeline quality natural gas created a renewable resource, biogas ("Cedar Hills biogas"), and enabled PSE to begin monetizing the environmental attributes. In the prior PCA Period, January 1, 2012 through December 31, 2012, ("PCA Period 11"), PSE reduced SAP power costs by $695,278, which represented the underlying net costs of the physical Cedar Hills biogas sales which were included in the PCA baseline rate in effect in PCA Period 11, but for which a determination had not been made regarding the proper accounting and ratemaking treatment. On November 27, 2013, the Commission approved the accounting petition filed under Docket No. UE-131276 the outcome of which allowed that these "mark-to-market" net costs associated with Cedar Hills Biogas produced before November 1, 2013 be kept in power costs through October 31, 2013 and then recorded below the line beginning November 1, 2013 when the new baseline rate from PSE's 2013 PCORC that excluded such costs went into effect. Accordingly, the adjustment to reduce power costs by $695,278 in PCA Period 11 was reversed in PCA Period 12.

<u>2) Transmission Reserves for Open Access Transmission Tariff ("OATT") Revenue related to Colstrip, Southern and Northern Intertie</u>: In June 2011, PSE filed revisions to its OATT to update PSE's existing rates for Regulation and Frequency Response Service to reflect its current costs of providing such service and to provide for recovery of costs incurred to serve intermittent generators exporting power from PSE's Balancing Authority Area. In October 2011, FERC issued its order under FERC Docket No. ER11-3735 and accepted PSE's proposed rate changes pending final approval. These rate changes, which were subject to change, went into effect on January 5, 2012. Since the rates were awaiting final approval, beginning in September 2012, PSE recorded a monthly reserve for the revenue that was subject to refund, but didn't include in PCA Period 11 the portion of this reserve that related to transmission income included in PSE's PCA mechanism. Therefore, in May 2013 of this current PCA Period 12, PSE made an adjustment to the amount of the PCA related transmission income recorded in FERC 456 in SAP to include the appropriate amount of PCA related reserve . Of the total $410,623 adjustment, $329,870 related to September 2012 through December 2012 (PCA Period 11) and the remainder related to January through April 2013 (PCA Period 12).

3) Adjustment to lower of cost or market of gas for power inventory at Jackson Prairie: In PCA Period 11, PSE recorded a debit to FERC account 547 Fuel for $70,627 in December 2012 which represented the mark to market write down of inventory held at Jackson Prairie by PSE's power book. This debit was removed from PCA Period 11 total allowable costs because an inventory write down is considered a non-cash financial adjustment that reverses when the fuel is used and so these accounting entries should not impact the PCA. The majority of these entries reverse within a calendar PCA period, netting to zero, and so do not normally show up as an adjustment in arriving at total allowable costs for a PCA period. However, this December 2012 PCA period 11 transaction reversed in the first quarter of 2013, which was with this PCA Period 12 period. Therefore, to be consistent with the PCA Period 11 treatment, the SAP reversal of the transaction in the first quarter of 2013 was excluded from PCA total allowable costs in PCA Period 12.

V. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.