

**Exhibit No. ___T (JH-1T)
Docket UE-130617
Witness: Joanna Huang**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET UE-130617

In the Matter of the Application of

PUGET SOUND ENERGY, INC.,

**For an Order Authorizing the Sale of
Interests in the Development Assets
Required for the Construction and
Operation of Phase II of the Lower Snake
River Wind Facility**

DOCKET UE-131230

TESTIMONY OF

Joanna Huang

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Lower Snake River Wind Facility, Phase 2

August 14, 2013

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Deferred Carrying Charges

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Joanna Huang. My business address is Richard Hemstad Building, 1300
5 S. Evergreen Park Drive S.W., Olympia, Washington 98504.

6

7 **Q. By whom are you employed and in what capacity?**

8 A. I am employed by the Washington Utilities and Transportation Commission
9 (“Commission”) as a Regulatory Analyst in the Energy Section of the Regulatory
10 Services Division.

11

12 **Q. How long have you been employed by the Commission?**

13 A. I have been employed by the Commission since June 1996.

14

15 **Q. Would you please state your educational and professional background?**

16 A. I received a Bachelor of Business Administration degree majoring in Accounting
17 from National Chung-Hsing University, Taiwan, in 1987 and a Masters of
18 Accounting degree from Washington State University in 1991. Prior to my
19 employment at the Commission, I was employed by the Washington State
20 Department of Revenue as an Excise Tax Examiner.

21 I began my employment with the Commission in 1996. My work generally
22 includes financial, accounting and other analyses for general rate case proceedings
23 and other tariff filings by the electric and natural gas utilities regulated by the

1 Commission. I attended the National Association of Regulated Utility
2 Commissioners Annual Utility School in 1996 and 2001. In addition, I have
3 attended numerous training seminars and conferences regarding utility regulations
4 and operations.

5
6 **Q. Have you testified previously before the Commission?**

7 A. Yes. I testified in a Puget Sound Energy, Inc. (“PSE”) general rate case Dockets
8 UE-090704 and UG-090705, and Dockets UE-072300 and UG-072301; PacifiCorp
9 general rate case Docket UE-130043 and UE-032065; Avista general rate case
10 Dockets UE-120436 and UG-120437, Dockets UE-090134 and UG-090135, and
11 Dockets UE-991606 and UG-991607; and a Northwest Natural filing in Docket UG-
12 111233.

13 I have also participated in Staff’s investigations in the following general rate
14 cases and other matters: Docket UE-011595, Dockets UE-050482 and UG-050483,
15 Dockets UE-070804 and UG-070805, Dockets UE-100467 and UG-100468, and
16 Dockets UE-110876 and UG-110877 (all Avista); Docket UG-060256 (Cascade);
17 Docket UG-080546 (Northwest Natural), Docket UG-031885 (Northwest Natural);
18 and Dockets UE-070725 and UG-130137 (PSE).

19

20 **II. SCOPE AND SUMMARY OF TESTIMONY**

21

22 **Q. What is the scope of your testimony in this proceeding?**

1 A. I address PSE’s transfer of Transmission Service Credits to Portland General Electric
2 Company (PGE) associated with the Lower Snake River Wind Project (LSR), Phase
3 2. I present Staff’s recommendation of the proper accounting treatment and
4 reduction in value to be applied to the current balance of the two regulatory assets
5 associated with those BPA Transmission Service Credits. In Docket UE-131230, the
6 Commission approved PSE’s transfer of these Transmission Service Credits, but did
7 not resolve the accounting and ratemaking treatment of that sale.

8

9 **Q. Please summarize Staff’s recommendation.**

10 A. The current balances of PSE’s regulatory assets associated with the prepayment PSE
11 made to BPA for transmission service credits (TSC) are \$99.8 million (principal
12 balance) and \$17.4 million (accrued carrying charges) as of May 31, 2012. Staff
13 recommends the Commission reduce the principal balance of the TSC regulatory
14 asset by \$20.5 million, and reduce the balance of the accrued carrying charges
15 regulatory asset by \$3,390,059. These are the amounts associated with the \$20.5
16 million of Transmission Service Credits PSE sold to PGE. By making these
17 reductions, the Commission will give full effect to PSE’s sale of LSR Phase 2 to
18 PGE.

19

20 **Q. Have you prepared any exhibits in support of your testimony?**

21 A. Yes. I prepared Exhibit No. JH-2, page 2, entitled “Support for Calculation of Staff
22 Adjustment 21, Prepaid Transmission and Deferred Carrying Charges.” This exhibit

1 explains how Staff calculated the \$20.5 million reduction for the principle balance,
2 and the \$3,390,059 reduction for the accrued carrying charges.

3 4 **III. BACKGROUND**

5 6 **A. Nature of the Facilities at Issue**

7
8 **Q. What facilities are at issue in your testimony?**

9 A. The facilities at issue in my testimony are the LSR Project and BPA's Central Ferry
10 Substation, which brings the power from PSE's LSR Project to the power grid.

11
12 **Q. Please describe PSE's LSR Project and the Central Ferry Substation.**

13 A. Overall, the LSR Project is a wind generation facility consisting of five phases: I, II,
14 III, IV and V. Only LSR Phase 1 is operational. LSR Phase 1 is a wind generation
15 facility with a nameplate capacity of 342.7 MW, located on 39,600 acres of leased
16 property in western Garfield County, Washington. PSE placed LSR Phase 1 into
17 service in February 2012. LSR Phase 1 interconnects with BPA's new 230/500 kV
18 Central Ferry Substation.

19 BPA constructed the Central Ferry Substation to, among other things; bring
20 the output of the LSR Wind Project to PSE's load center. BPA operates, maintains,
21 and owns the Central Ferry Substation.

1 **B. PSE’s Prepayment to BPA**

2

3 **Q. How much is PSE’s Prepayment to BPA?**

4 A. Approximately \$102 million.

5

6 **Q. What are the components of this \$102 million?**

7 A. For the \$102 million, BPA designated \$99.8 million to Network Upgrades, which is
8 related to construction of the substation, and the remaining \$2.5 million to
9 Interconnection Facilities, which are the costs of the facilities necessary for PSE to
10 connect to the substation itself. As I discuss later, the costs of the Interconnection
11 Facilities are directly assigned to PSE. The issues in my testimony relate to the
12 remaining \$99.8 million of the \$102 million prepayment amount.

13

14 **Q. What types of facilities did BPA construct?**

15 A. BPA constructed two types of facilities: Interconnection Facilities (\$2.5 million) and
16 Network Upgrades (\$99.8 million).

17

18 **Q. Please describe the Interconnection Facilities.**

19 A. These facilities allow PSE to connect the output of the LSR Project to the
20 transmission grid. The Interconnection Facilities are located before the point of
21 interconnection of the LSR Project and the BPA Central Ferry Substation.

22 Interconnection Facilities include the electric wires, switches and all facilities and

1 equipment owned by the electrical company (PSE) necessary to interconnect a
2 generating facility to the electric system at the Central Ferry Substation.

3

4 **Q. Who benefits from these Interconnection Facilities?**

5 A. Only PSE benefits from the Interconnecting Facilities.

6

7 **Q. What are the implications of that fact?**

8 A. Because only PSE benefits from the Interconnection Facilities, PSE should bear the
9 full cost of the Interconnection Facilities. PSE includes this \$2.5 million in a
10 Construction Work in Process account for the LSR Project before May 14, 2012.
11 After that date, this amount is in a Plant account.

12

13 **Q. Please describe the Network Upgrades.**

14 A. The “Network Upgrades” are the Central Ferry Substation facilities located at or
15 beyond the point of PSE’s interconnection. The role of the Network Upgrades is to
16 bring power from the LSR Project, and to improve the entire transmission system.
17 The cost of constructing the Central Ferry Substation was solely determined by BPA
18 in accordance with its standardized interconnection requirements to step up power
19 from 230 kv to 500 kv for 1250 MW of capacity.

20

21 **Q. Who benefits from these Network Upgrades?**

22 A. All users of the transmission system benefit from the Network Upgrades.

23

1 **Q What are the implications of that fact?**

2 A. Because all users of the transmission system benefit from the Network Upgrades, all
3 users of the transmission grid must pay BPA to use it. Therefore, BPA rolls the cost
4 of the Network Upgrades into its transmission rates so that all users of the
5 transmission pay their fair share of the facility cost.

6

7 **Q. Did PSE have the option to construct the Central Ferry Substation?**

8 A. No. BPA was responsible for constructing the Central Ferry Substation, with an
9 additional transformer to connect to the BPA high voltage transmission system to
10 serve the LSR Project.

11

12 **Q. How did PSE pay BPA for the Central Ferry Substation (Network Upgrades)?**

13 A. BPA required PSE to pay BPA \$99.8 million. PSE made a series of payments to
14 BPA from August 2008 to August 2011. PSE made full payment of this \$99.8
15 million to BPA before the substation was built.

16

17 **Q. Does BPA repay PSE for the \$99.8 million prepayment PSE made for the**
18 **substation?**

19 A. Yes. BPA repays PSE's prepayment of \$99.8 million through "Transmission Service
20 Credits" applied monthly until PSE recovers the cost associated with the \$99.8
21 million, plus interest. Each month, PSE's cost to use the Central Ferry Substation is
22 offset by an equal amount of Transmission Service Credits provided by BPA. BPA
23 accrues interest on the outstanding balance of the prepayment at the annual FERC

1 interest rate. This interest will be returned to PSE in the form of future transmission
2 services from BPA. BPA's accrued interest plus principal reduces the regulatory
3 assets associated with the substation prepayment PSE made to BPA for the benefit of
4 ratepayers.

6 **C. PSE's Accounting for PSE's Prepayment to BPA for the Central Ferry**
7 **Substation**

8 **Q. Please describe the accounting treatment the Commission authorized for PSE**
9 **for the costs associated with PSE's \$99.8 million prepayment to BPA to**
10 **construct the Central Ferry Substation.**

11 A. The Commission allowed PSE to defer PSE's \$99.8 million prepayment as a
12 regulatory asset.¹ The Commission also allowed PSE to book monthly carrying
13 charges on the deferred prepayment costs at PSE's approved net of tax rate of return,
14 which was 6.9 percent at that time. These carrying charges are a separate regulatory
15 asset associated with the prepayment PSE made to BPA.

16 PSE began accruing carrying charges on the deferred prepayment costs as of
17 May 20, 2010; the date PSE filed its accounting petition in Docket UE-100882.

18
19 **Q. What amounts has PSE accrued on its \$99.8 million prepayment to BPA?**

20 A. PSE has accrued carrying charges of \$17,372,419 over the period May 20, 2010, to
21 May 2012. As I stated, these accrued carrying charges are also a regulatory asset.

22 In addition, since May 14, 2012, PSE has earned a return of 7.8 percent on

¹ *Application for an Accounting Order Authorizing Deferred Accounting Treatment for the Costs Associated with the Transmission Network Upgrades to Meet Transmission Capacity Needs of the Region and Serve the Lower Snake River Wind Project*, Docket UE-100882, Order 01 (May 31, 2012), page 3, ¶ 12.

1 the regulatory asset represented by the prepayment of \$99.8 million (principal
2 portion) and on the regulatory asset of \$17,372,419 representing the accrued carrying
3 charges. May 14, 2012, is the date of the Commission's rate order that included LSR
4 Phase 1 in rate base.² 7.8 percent is the rate of return the Commission authorized in
5 that order.

6
7 **D. PSE's Sale of LSR Phase 2**

8
9 **Q. Please describe the LSR Phase 2 sales transaction.**

10 A. On June 2, 2013, PSE entered into an Asset Purchase and Sale Agreement to sell to
11 PGE, PSE's interest in the development assets required for the construction and
12 operation of LSR Phase 2. PGE paid \$16,008,000 to PSE for the development rights
13 and assets. PSE's net book value for LSR Phase 2 is approximately \$15,933,493,
14 and the transaction costs for this sale are approximately \$175,000.

15 PSE also sold a share of its BPA Transmission Service Credits to PGE for
16 \$20.5 million. This \$20.5 million is LSR Phase 2's approximate 21 percent share of
17 the \$99.8 million prepayment PSE made to BPA for the Central Ferry Substation.
18 This percentage is based on LSR Phase 2's assigned capacity of 267 megawatts in
19 the substation, which represents approximately 21 percent of the 1,250 megawatt
20 substation capacity. My Exhibit No. JH-2, page 5, shows how the \$20.5 million was
21 determined.

22

² *Utilities and Transp. Comm'n v. Puget Sound Energy*, Dockets UE-111048 and UG-111049 (Consolidated),
Order 08, Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing (May 14, 2012)

1 **Q. Have the LSR Phase 2 development assets ever provided service to ratepayers?**

2 A. No. The Commission never included LSR Phase 2 assets in rate base for ratemaking
3 purposes, and these assets otherwise have never been used by PSE to provide service
4 to ratepayers. Therefore, the total cost of the sale at \$16,008,000 has no impact on
5 ratepayers. I do not discuss this aspect of the sale further in my testimony.

6

7 **Q. Are you familiar with the petition PSE filed in Docket UE-131230, seeking
8 certain actions by the Commission concerning the LSR Phase 2 sales
9 transaction?**

10 A. Yes.

11

12 **Q. What did the Commission determine in that docket?**

13 A. First, the Commission determined that the purchased assets for LSR II are not
14 necessary or useful, thereby allowing PSE to sell its development assets related to
15 LSR Phase 2 to PGE without the need for Commission approval under RCW 80.12.

16 Second, the Commission approved PSE's application to transfer a pro rata
17 share of PSE's Transmission Service Credits to PGE.

18 Third, the Commission set for hearing PSE's proposed accounting and
19 ratemaking treatment associated with the PSE's transfer of these Transmission
20 Service Credits to PGE.

21

22 **Q. Does Staff contest the adequacy of the \$20.5 million payment for the sale of BPA
23 Transmission Service Credits to PGE?**

1 A. No. As I explain next, Staff contests PSE’s failure to sufficiently reduce the balance
2 of the regulatory assets. The \$20.5 million represents only LSR Phase 2’s share of
3 the \$99.8 million prepaid transmission rights for the Central Ferry Substation. It
4 does not capture LSR Phase 2’s share of accrued carrying charges.

5
6 **E. The Appropriate Accounting and Ratemaking Treatment of the Sale of**
7 **BPA Transmission Service Credits for LSR Phase 2**

8
9 **Q. What is the appropriate accounting and ratemaking treatment for PSE’s sale of**
10 **the \$20.5 million of BPA Transmission Service Credits for LSR Phase 2 to**
11 **PGE?**

12 A. The appropriate accounting and ratemaking for the sale of these Transmission
13 Service Credits is to reduce by \$20.5 million the principle balance of PSE’s \$99.8
14 million prepayment regulatory asset, and to reduce by \$3,390,059 the carrying
15 charges regulatory asset.

16
17 **Q. Please explain how Staff arrived at the \$3,390,059 figure.**

18 A. LSR Phase 2 represents about 21 percent of the total capacity of the LSR project.
19 This percentage applied to the balance of the carrying charges as of July 31, 2013, is
20 \$3,390,059.³ This reflects the LSR Phase 2’s assigned carrying charges of the total
21 amount of carrying charges.

22

³ \$16,503,798 * (20.5/99.8) = \$3,390,259. My Exhibit JH-2, page 2, column (g), “July 2013,” shows the \$16,503,798.

1 **Q. Why is this \$3,390,059 amount different from the Staff amount in Staff’s**
2 **revised memorandum presented at the Commission’s July 26, open meeting?**

3 A. Staff’s earlier calculation reflected Staff’s preliminary review. The Commission
4 received PSE’s application for accounting petition requesting the sale of interest in
5 the development assets required for LSR Phase 2 on June 26, 2013. PSE requested
6 the Commission issue an order authorizing the sale of LSR Phase 2 on July 26, 2013.
7 Given additional time, Staff has refined its analysis and now recommends a simple
8 reduction to the regulatory asset for accrued carrying charges.

9
10 **Q. Please explain the rationale for Staff’s proposed accounting treatment.**

11 A. Generally, carrying charges become part of the initial balance of an asset. Therefore,
12 when part of the asset is sold, the entire booked value associated with that part,
13 including a share of the total carrying charges, should be removed from the
14 company’s books of account.

15 The same principle should apply to regulatory assets. Therefore, after the
16 sale of LSR Phase 2 to PGE, not only must the principle balance of PSE’s \$99.8
17 million prepayment regulatory asset for Transmission Service Credits be reduced (by
18 \$20.5 million), but the accrued carrying charges balance of must also be reduced (by
19 \$3,390,059).⁴

20
21 **Q. What are the net balances of the LSR Phase 2’s prepaid transmission for the**
22 **rate year in the Power Cost Only Rate Case?**

⁴ The total reduction, shown in Exhibit No. JH-2, page 2, columb (b), “August 2013,” includes \$87,913 for one-half month of accrued interest.

1 A. The net average of monthly average (AMA) balance of the LSR Phase 2's prepaid
2 transmission for the rate year is \$76,591,342 and the net AMA balance of the
3 carrying charges is \$7,834,337, which reflects the reduction of the regulatory assets
4 (principal and carrying charges, accumulated amortization and deferred income
5 taxes) per Staff's adjustment. Staff also appropriately revised the amortization and
6 deferred income tax expenses.

7
8 **Q. What does PSE propose for the accounting and ratemaking treatment for the
9 sale to PGE of the Transmission Service Credits for LSR Phase 2?**

10 A. PSE proposes to reduce only the principal balance of PSE's \$99.8 million
11 prepayment, by \$20.5 million; the amount PGE paid PSE for the Transmission
12 Service Credits.

13
14 **Q. Is PSE's proposal appropriate?**

15 A. No. PSE fails to take into account the fact that there are carrying charges associated
16 with that \$20.5 million. As of July 31, 2013, those carrying charges associated with
17 that \$20.5 million amount to \$3,390,059. Staff's proposal captures the totality of
18 costs associated with the sale of Transmission Service Credits to PGE.

19
20 **Q. Does this conclude your testimony?**

21 A. Yes.

22