EXHIBIT NO. ___(KJB-1T)
DOCKET NO. UE-13____
PCA 11 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 2013 Power Cost Adjustment Mechanism Report**	**Docket No. UE-13____**

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

MARCH 29, 2013

PUGET SOUND ENERGY, INC.

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KATHERINE J. BARNARD

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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 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. The Settlement Agreement in the Fourth Order in PSE’s 2005 power cost only rate case, Docket No. UE-050870, incorporated an amendment to the annual reporting period for the PCA Mechanism from a June 30 fiscal year to a calendar year. Pursuant to the order approving the settlement in Docket No. UE-050870 and the 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, 2012 ("PCA Period 11"). 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. It 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 rate from the most recent general rate case 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, 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 list of these regulatory assets and liabilities is included on pages 7 through 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 11:

Adjustments reflected on Exhibit B:

1) 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 11.

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." The specifics behind the calculation of this adjustment and amounts that relate to PCA Period 11 are further discussed below.

3) Prior to PCA Period 11, Exhibit B contained a prudence disallowance from Docket No. UE-921262, disallowing a portion of the power costs associated with March Point 2 (3%) and Tenaska (1.2%) which were shown in Schedule X, "NUG Prudence Adjustments". This adjustment expired at the end of 2011 when both the Tenaska and the March Point 2 contracts expired. Therefore, this adjustment will no longer be necessary beginning with PCA Period 11;

4) The adjustment for disallowance of costs associated with the Tenaska Benchmark Disallowance as determined in Docket No. UE-031725 expired in 2011 when the Tenaska Regulatory Asset became fully amortized, therefore, this adjustment will no longer be necessary beginning with PCA Period 11.

Adjustments not directly reflected on Exhibit B:

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). There were no adjustments made in PCA Period 11 that required restatement of prior PCA periods pursuant to this methodology.

2) Adjustments to 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 11 that are discussed in more detail below.

III. PCA PERIOD 11 ACCOUNTING

Q. Please explain how PSE has tracked its PCA Period 11 power costs.

A. There were no significant changes to the PCA Mechanism during 2012. 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.[1] 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

1 *See* Exhibit A to the Petition.

sharing defined in the PCA Mechanism. Any difference allocated to the customers is recorded in FERC Account 182.3, Other regulatory assets, or Account 254, Other regulatory credits, depending on whether the accumulated balance is a debit or credit at the end of a PCA period.

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.

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 11?

A. Yes, the baseline power cost rate changed once during the period. At the end of the prior PCA period, the baseline power cost rate was $64.513 per Megawatt hour (MWh) as approved in Docket No. UE-110380. Beginning January 1, 2012 through May 13, 2012, the baseline power cost rate was $62.553 per MWh established in Docket No. UE-112050. Both of these dockets approved changes to PSE's Schedule 133 adjusting price schedule which recovered the costs of the Tenaska Regulatory Asset as approved in PSE's 2009 general rate case in WUTC

Docket UE-090704 and which was included as part of the baseline power cost rate. The January 1, 2012 change to the baseline power cost rate per Docket No. UE-112050 was to recognize that the Tenaska Regulatory Asset was fully amortized in December of 2011, and thus Schedule 133 was set to zero effective January 1, 2012. This baseline power cost rate and supporting schedules are found on page 10 of the 2012 PCA Annual Report, Exhibit No. ___(KJB-3).

From May 14, 2012 through December 31, 2012, the baseline power cost rate was $62.101 per MWh. The change to the baseline rate was approved in Docket No. UE-111048, PSE's 2011 general rate case. The baseline power cost rate for this period is found on page 12 of Exhibit No. ___(KJB-3).

Q. What is the actual average power cost rate experienced for PCA Period 11?

A. As shown on page five (Exhibit A-1 Power Cost Rate Updated) of Exhibit No. ___(KJB-3), the average power cost rate experienced for the twelve month period ended December 31, 2012 is $61.069 per MWh.

Q. Why did the actual average power cost rate differ from the baseline power cost rates in effect during PCA Period 11?

A. The actual average power cost rate differed from the baseline power cost rates in effect during PCA Period 11 due to changes in variable components of the PCA Mechanism, which are discussed in the prefiled direct testimony of David E. Mills, Exhibit No. ___(DEM-1CT).

Q. How did the actual power costs compare to the average baseline power cost rates in effect during PCA Period 11?

A. Actual power costs were lower than the average baseline power cost rates in effect during the PCA Period 11 by $25,644,564 (after adjustment for Firm Wholesale). PSE's share of this over-recovery of power costs is $22,822,282. The customers' share of this over-recovery of power costs is $2,822,282.

Q. What is the distribution of the resulting cumulative imbalance for sharing at the end of PCA Period 11?

A. Considering the activity that occurred in PCA Period 11, the cumulative imbalance for sharing at the end of PCA Period 11 was an under-collection of $2,274,311. PSE's share of this imbalance was a credit of $375,636, with the remaining $2,649,947 assigned to the customer: *See* Exhibit No. ___(KJB-3), page four.

Adjustments to PCA variable costs in PCA Period 11.

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 11?

A. Yes, as discussed in the prefiled direct testimony of David E. Mills, Exhibit No. ___(DEM-1CT), there was one resource included in PCA Period 11 that required analysis to determine whether an adjustment was necessary under Exhibit G. The details of this resource are shown in the table below:

Resource	Effective	Rates in Effect	Actual variable unit cost > Baseline Rate?	PCA Exhibit G Adjustment?
Klamath Peaker PPA	1/01/2012	5/14/2012	Yes	Yes

Q. Are there other new resources with a term of greater than two years that became effective during PCA Period 11?

A. Yes. Two additional resources with terms of greater than two years became effective in PCA Period 11. The first was Phase 1 of the Lower Snake River Wind Project, which was placed in service on February 29, 2012 and included in rates in May 2012. The second 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. Both of these resources qualify for deferral under RCW 80.80.060(6). For both 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,[2] and credits the deferral for these costs. This calculation is based on the run time of the machine 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 costs that are associated with Lower Snake River 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 not been deferred, they would have been less than the baseline power cost rate, and therefore, no Exhibit G adjustment would have been warranted.

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[2] Rates in effect during the Lower Snake River Phase 1 deferral period were from PSE's 2009 general rate case, Docket No. UE-090704. Rates in effect during the Ferndale deferral period were from PSE's 2011 general rate case, Docket No. UE-111048.

IV. ADJUSTMENT OF COSTS MADE UNDER THE RESTATEMENT METHODOLOGY

Q. Were there any adjustments made under the Restatement Methodology to power costs in PCA Period 11?

A. Yes, there were three adjustments made to SAP variable costs during PCA Period 11. As stated above, there were no adjustments made in PCA Period 11 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 11 did not meet the requirements for restatement of prior periods, and thus were flowed through the PCA calculation in the PCA Period 11 month in which they were identified, as directed by section C.2. of the Restatement Methodology. A description of these three adjustments follows:

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. 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. PSE does not currently have a rate schedule that is approved for passing back net proceeds from biogas to customers. PSE is currently evaluating the proper accounting and rate making treatment of these biogas transactions and intends to file an accounting petition requesting the appropriate treatment. Therefore, a credit of $695,278 to FERC 456 representing the net cost of the physical Cedar

Hills gas sold that was charged to FERC account 456 in PCA Period 11was removed from total allowable costs in anticipation of the filing of the associated accounting petition.

<u>2) Electric Tariff Schedule 133 Tenaska Regulatory Asset</u>: On January 30, 2012, PSE filed a proposed tariff rate change under WUTC Docket No. UE-120137 to recover an under collection of $944,644 related to Schedule 133, the Tenaska Tracker. In December 2011, to accrue the future recovery of the under collection, PSE recorded a $944,644 credit to FERC 555 and an offsetting debit to FERC 186. The credit to FERC 555 was included in the calculation of total variable costs in the PCA Period 10 deferral. On February 23, 2012 at the WUTC open meeting, the rate change went into effect on the No Action Agenda. At that time, it was determined that because there was no Commission Order approving a new baseline power cost rate that includes the Schedule 133 revenues from UE-120137, the PCA should not include anything related to that docket in either the baseline power cost rate or the total allowable costs that are used in the calculation of the PCA deferral. Accordingly, PSE has made a correction in PCA Period 11 to remove the December 2011 credit to FERC 555 from the total allowable costs. Additionally, PSE recognized amortization in SAP in FERC Account 555 as the revenues from UE-120137 were recognized. This amortization was also removed from PCA Period 11 total allowable costs.

<u>3) Adjustment to lower of cost or market of gas for power inventory at Jackson Prairie</u>: A debit to FERC account 547 Fuel for $70,627 was made 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 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 costs 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 to SAP in arriving at total allowable costs for a PCA period. However, this transaction reverses in the first quarter of 2013 which is part of the next PCA Period. The SAP reversal of the transaction in the first quarter of 2013 will likewise be excluded from PCA total allowable costs in PCA Period 12.

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

A. Yes, it does.