

**EXH. PSE-1JT  
DOCKETS UE-180899/UG-180900  
2018 EXPEDITED RATE FILING  
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-180899  
Docket UG-180900**

**JOINT TESTIMONY  
(NONCONFIDENTIAL) OF**

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

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

**JANUARY 30, 2019**

**PUGET SOUND ENERGY**

**JOINT TESTIMONY  
(NONCONFIDENTIAL) OF  
KATHERINE J. BARNARD, SUSAN E. FREE, AND JON PILIARIS**

**SUPPORTING THE SETTLEMENT STIPULATION AND AGREEMENT**

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1 **PUGET SOUND ENERGY**

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

4 **SUPPORTING THE SETTLEMENT STIPULATION AND AGREEMENT**

5 **I. INTRODUCTION**

6 **Q. Are you the same Katherine J. Barnard who submitted prefiled direct**  
7 **testimony on November 7, 2018 on behalf of Puget Sound Energy (“PSE”) in**  
8 **this proceeding?**

9 **A. Yes.**

10 **Q. Are you the same Susan E. Free who submitted prefiled direct testimony on**  
11 **November 7, 2018 on behalf of PSE in this proceeding?**

12 **A. Yes.**

13 **Q. Are you the same Jon A. Piliaris who submitted prefiled direct testimony on**  
14 **November 7, 2018 on behalf of PSE in this proceeding?**

15 **A. Yes.**

16 **Q. What is the purpose of your Joint Testimony?**

17 **A. This Joint Testimony addresses PSE’s support for the full Settlement Stipulation**  
18 **and Agreement (“Settlement”) filed with the Commission on January 30, 2019. In**  
19 **addition to PSE, the following parties have joined in the Settlement: (i) the**  
20 **regulatory staff of the Washington Utilities and Transportation Commission**

1 (“Commission Staff”),<sup>1</sup> (ii) the Alliance of Western Energy Consumers, (iii) The  
2 Public Counsel Unit of the Washington Office of the Attorney General (“Public  
3 Counsel”), (iv) The Energy Project, (v) Federal Executive Agencies, and (vi)  
4 Nucor Steel Seattle, Inc. Together, these parties are referred to as the “Settling  
5 Parties.”

6 The Settling Parties are also filing a Joint Narrative in Support of Settlement  
7 Stipulation and Agreement (“Joint Narrative”). This Joint Testimony supplements  
8 the Joint Narrative and sets forth PSE’s testimony as to why the Settlement is  
9 supported by PSE, is in the public interest, and should be approved by the  
10 Commission.

11 **II. THE SETTLEMENT SATISFIES PSE'S INTEREST AND**  
12 **THE PUBLIC INTEREST**

13 **A. Summary of the Key Provisions of the Settlement From PSE’s**  
14 **Perspective**

15 **Q. Why is PSE supporting the Settlement?**

16 A. The Settlement reflects a fair and reasonable resolution of the issues raised in this  
17 expedited rate filing (“ERF”), which PSE filed on November 7, 2018. It  
18 represents a compromise of the Settling Parties’ positions in this case. Some of  
19 the key elements of the Settlement, from PSE’s perspective, are as follows:

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<sup>1</sup> In formal proceedings, such as this, the Commission’s regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners’ policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. See RCW 34.05.455.

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- Natural Gas and Electric Rates: The Settlement recognizes PSE’s significant natural gas revenue deficiency, and allows PSE a revenue increase of \$21.5 million, which is a 2.90 percent increase. The Settlement provides for no increase to electric rates. These are both black box settlements in which the Settling Parties have agreed to firm end-result numbers without indicating which parties’ adjustments or issues were included in the final numbers. The Settling Parties have agreed that new rates will go into effect on March 1, 2019, which is an important aspect of the Settlement for PSE.
- Excess Deferred Income Taxes (“EDIT”): The Settlement establishes a framework for addressing the manner in which protected-plus<sup>2</sup> EDIT are being passed back to customers.
- Advanced Metering Infrastructure (“AMI”) Investment: The Settlement allows PSE to defer depreciation and cost of invested capital on AMI investment that is in service in the test year in this case. It also allows deferral of depreciation on AMI investment that is placed in service after the test year in this case, on a going forward basis.
- ERF and Prudence Reviews: The Settling Parties continue to have diverse views on expedited rate filings. This Settlement does not attempt to resolve those issues. However, as a compromise in this case, with respect to investments transferred to plant subsequent to the test year in the 2017 General Rate Case, the Settling Parties reserve the right to undertake a prudence review of any such plant in PSE’s next general rate case.

**B. Natural Gas and Electric Revenue Requirement**

**Q. Why are the terms of the Settlement addressing natural gas rates consistent with PSE’s interest and the public interest?**

A. The natural gas revenue deficiency is supported by substantial and undisputed evidence. In fact, as discussed in the Prefiled Direct Testimony of Susan E. Free,

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<sup>2</sup> “Protected-plus” EDIT was defined by Commission Staff in Docket UG-170929 and is further discussed in the Prefiled Direct Testimony of Mr. Matthew R. Marcellia, Exh. MRM-1T at 7:5-9:15.

1 Exh. SEF-1T, pages 8-9, the full natural gas revenue deficiency would have  
2 justified more than a three percent increase; however, due to the nature of an  
3 expedited rate filing, which limits rate increases to less than three percent, PSE  
4 limited its requested rate increase to 2.90 percent in this case.<sup>3</sup> The resulting rates  
5 are fair, just, reasonable and sufficient and consistent with the public interest.

6 **Q. Why are the terms of the Settlement addressing electric rates consistent with**  
7 **PSE's interest and the public interest?**

8 A. The Settling Parties have differing views on the electric revenue requirement in  
9 this case. Ultimately, as part of the overall compromise that constituted this  
10 Settlement, PSE agreed that electric rates would not increase in this case therefore  
11 holding customers' rates the same. One of the reasons PSE could support this  
12 outcome is due to the proposed deferral of AMI related depreciation and return on  
13 investment. When viewed as a whole, the settlement, including the electric rates,  
14 are consistent with the public interest and result in rates that are fair, just,  
15 reasonable and sufficient.

16 **Q. Do the natural gas and electric revenue requirements reflect the pass back of**  
17 **protected-plus EDIT to customers?**

18 A. Yes. Both the electric and natural gas revenue requirements include the effect of  
19 passing back to customers the protected-plus EDIT on an annualized basis in a

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<sup>3</sup> The 2.90% relies on margin and gas cost revenue only and does not include the revenues associated with riders and trackers. When considering those additional revenues, the overall revenue increase is 2.7 percent.

1 new, separate tariff schedule. The proposed Schedule 141X will pass back the  
2 protected-plus EDIT consistent with the average rate assumption method  
3 (“ARAM”) for tax normalization and consistency rules based on EDIT reversals  
4 in the 2018 period. The normalization and consistency issues are described in  
5 more detail in the Prefiled Direct Testimony of Matthew R. Marcellia, Exh. MRM-  
6 1T. PSE can support the use of Schedule 141X because the rates will not change  
7 until adjusted in a general rate case where all rate base, accumulated deferred tax  
8 balances, depreciation/amortization, and tax expense items are reviewed,  
9 therefore meeting the IRS normalization provisions, particularly the consistency  
10 requirements.

11 **Q. Why are the natural gas and electric revenue requirement terms considered**  
12 **black box?**

13 A. The Settling Parties have agreed to firm end-result numbers without indicating  
14 which parties’ adjustments or issues were included in the final numbers. For this  
15 reason, they are considered black box settlements. However, for situations in  
16 which PSE must identify the electric and natural gas rate base, PSE will use the  
17 rate base as approved in the 2017 general rate case. Similarly, for instances in  
18 which PSE must report its authorized rate of return, PSE will use the rate of return  
19 of 7.49 percent that was filed in this case.

20 **Q. Why is it important to PSE for rates to go into effect March 1, 2019?**

21 A. From PSE’s perspective, a key aspect of an expedited rate filing is that it allows  
22 updated rates to go into effect expeditiously so as to avoid the significant

1 regulatory lag that is inherent in general rate case filings. This is discussed in  
2 detail in the Prefiled Direct Testimony of Katherine J. Barnard, Exh. KJB-1T.  
3 The March 1, 2019 rate effective date is consistent with this important aspect of  
4 the ERF; it is a key aspect of this Settlement, from PSE's perspective, and is also  
5 consistent with the settlement in PSE's 2017 general rate case.

6 **Q. How is the March 1, 2019 rate effective date consistent with the settlement in**  
7 **the 2017 general rate case?**

8 A. The parties to the settlement agreement in PSE's 2017 general rate case agreed  
9 that PSE could file an ERF within one year of the final order in the 2017 general  
10 rate case, and further agreed that they would support a procedural schedule that  
11 would allow new rates resulting from the ERF to go into effect within 120 days of  
12 the filing of the ERF. The March 1, 2019 rate effective date, agreed to by the  
13 Settling Parties in this case, is within 120 days of the filing of the ERF.

14 **C. Tax Reform**

15 **Q. Please elaborate on the terms in the Settlement addressing EDIT and tax**  
16 **reform.**

17 A. The Settling Parties do not agree on the proper accounting and ratemaking  
18 treatment of protected-plus EDIT reversals for the period January 1, 2018 through  
19 February 28, 2019. The tariffs discussed above (Schedule 141X) allow pass back  
20 of the protected-plus tax reversals in a manner that complies with normalization  
21 and consistency rules on a going forward basis. The Settling Parties reserve their



1 right to address, in PSE's next general rate case, the disposition and the proper  
2 ratemaking treatment of the protected-plus reversals that occur prior to the ERF  
3 rate effective period. In addition, the Settling Parties agree that the issues subject  
4 to PSE's Petition for Accounting Order in Dockets UE-171225 and UG-171226,  
5 including ratemaking treatment of the over-collection of tax expense from January  
6 1, 2018 to April 30, 2018 and ratemaking treatment of EDIT related to non-plant  
7 assets (unprotected EDIT), will also be addressed in PSE's next general rate case.

8 **Q. When does PSE plan to file its next general rate case?**

9 A. Although PSE has not determined the exact date of filing, PSE currently expects  
10 to file its next general rate case within months after entry of the final order in this  
11 ERF.

12 **D. Prudence and ERF**

13 **Q. Why does the Settlement permit parties to undertake a prudence review of**  
14 **investments transferred to plant after the test year of the 2017 general rate**  
15 **case?**

16 A. Some of the Settling Parties have concerns that the shortened time frame for an  
17 expedited rate filing makes it difficult to review the prudence of new plant in  
18 service. While PSE does not agree with this view, as a compromise, the  
19 Settlement allows parties to review for prudence in PSE's next general rate case  
20 all investments transferred to plant subsequent to the test year of the 2017 general  
21 rate case, with the exception of those pro forma adjustments to plant included in

1 the final revenue calculations accepted by the Commission in the 2017 general  
2 rate case.

3 **Q. Did PSE provide evidence supporting the prudence of new plant additions in**  
4 **its direct testimony in this ERF?**

5 A. Yes, PSE filed substantial testimony and exhibits in the ERF supporting the  
6 prudence of plant additions placed in service since the last general rate case.  
7 Additionally, PSE provided significant workpapers supporting the testimony and  
8 exhibits. The testimony supporting prudence includes: (i) the Prefiled Direct  
9 Testimony of Catherine A. Koch, Exh. CAK-1T supporting the transmission and  
10 distribution related plant and the AMI plant that was put in service since the  
11 general rate case test year; the Prefiled Direct testimony of Douglas S. Loreen,  
12 Exh. DSL-1T, supporting the prudence of the reconstruction of the 50-year-old  
13 Bellingham Service Center, the renovations to PSE's South King complex, and  
14 the purchase of the Snoqualmie technology center; (iii) the Prefiled Direct  
15 Testimony of Matthew R. Marcellia, Exh. MRM-1T, supporting PSE's financial  
16 information system upgrade ("FTIP"); and the Prefiled Direct Testimony of  
17 Margaret F. Hopkins, Exh. MFH-1T, supporting the prudence of PSE's  
18 technology investments, including technology investments for PSE's data center  
19 and Get To Zero initiative. The Settling Parties have stipulated to the admission  
20 into the record of all the prefiled direct testimony and exhibits.

1 **Q. Does the Settlement define the parameters for future ERFs?**

2 A. No, there is considerable disagreement among the parties as to the format for an  
3 ERF, when an ERF can be filed, and the substance of issues that may be  
4 addressed in an ERF. This Settlement does not address those issues. PSE looks  
5 forward to additional direction from the Commission on how an ERF may be used  
6 in the future, given the diversity of views on this subject.

7 **E. Deferrals of AMI Investment**

8 **Q. Why is the deferral of AMI investment appropriate and consistent with the**  
9 **public interest?**

10 A. PSE has put into service AMI meters and network to replace the AMR meter  
11 system, for the reasons discussed in the Prefiled Direct Testimony of Ms.  
12 Catherine A. Koch, Exh. CAK-1T. The AMI meters and network are serving  
13 customers today. Some of the Settling Parties believe additional time is needed to  
14 review the prudence of the AMI investment. PSE does not oppose this additional  
15 review, but PSE believes it should be allowed to earn a return on the investment  
16 made on this plant in service, and that it should be allowed to recover the  
17 depreciation expense associated with this investment that is currently providing  
18 service to customers. The Settlement allows PSE to defer the return on  
19 investment and depreciation expense for the AMI plant in service, for  
20 consideration by the Commission in PSE's next general rate case or other future  
21 proceeding. It also allows PSE to defer the depreciation expense for AMI  
22 investment placed into service subsequent to the test year in this case, on an

1 ongoing basis, for consideration in PSE’s next general rate case or a future  
2 proceeding.

3 **F. Transportation Schedules**

4 **Q. Why does the Settlement expressly provide that certain schedules will be**  
5 **limited to a 2.90 percent increase?**

6 A. PSE originally limited increases to gas non-residential customer rate groups to 2.9  
7 percent,<sup>4</sup> consistent with its approach taken in previous ERF filings. In the  
8 absence of clearer guidance from the Commission on the application of this  
9 limitation on rate increases within an ERF, it is also plausible that this limitation  
10 should apply at the individual schedule level, rather than rate group level. In the  
11 spirit of compromise, and in consideration of the Settlement as a whole, PSE is  
12 willing to accept this alternative interpretation for purposes of this settlement.

13 **III. CONCLUSION**

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

15 A. Yes.

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<sup>4</sup> For instance, while gas schedules 41 and 41T are separate and distinct within PSE’s gas tariff book, they are collectively treated as a “rate group” for purposes of cost allocation within PSE’s cost of service studies.