

EXHIBIT NO. ___(KJB-1T)
DOCKET NO. UE-15___
PCA 13 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 2015 Power Cost
Adjustment Mechanism Report**

Docket No. UE-15___

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

MARCH 31, 2015

PUGET SOUND ENERGY, INC.

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
KATHERINE J. BARNARD**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED DIRECT TESTIMONY OF KATHERINE J. BARNARD**

3 **I. INTRODUCTION**

4 **Q. Please state your name, business address and present position.**

5 A. My name is Katherine J. Barnard. My business address is 10885 N.E. Fourth
6 Street, P.O. Box 97034, Bellevue, Washington 98009-9734. I am the Director of
7 Revenue Requirement and Regulatory Compliance for Puget Sound Energy, Inc.
8 ("PSE").

9 **Q. What is your educational and professional experience?**

10 A. The first exhibit to my testimony, Exhibit No. ___(KJB-2), describes my
11 educational and professional experience.

12 **Q. What are your duties as Director of Revenue Requirement and Regulatory
13 Compliance for PSE?**

14 A. As Director of Revenue Requirement and Regulatory Compliance, I am
15 responsible for the Revenue Requirement department at PSE.

16 **Q. What is the purpose of this filing?**

17 A. In accordance with the Commission's Twelfth Supplemental Order in Docket
18 No. UE-011570, PSE must file an annual report detailing the power costs

1 included in its deferral calculation under the Power Cost Adjustment ("PCA")
2 Mechanism. In accordance with the Commission's Sixteenth Supplemental Order
3 in Docket Nos. UE-011570, the annual PCA true-up filings are due by the end of
4 each March for the prior PCA calendar year. Through its Petition, PSE is
5 requesting approval of its PCA Mechanism Report ("PCA Annual Report") for
6 the Twelve Months Ended December 31, 2014 ("PCA Period 13"). The PCA
7 Annual Report is provided in this filing as the Second Exhibit to my testimony,
8 Exhibit No. ____ (KJB-3).

9 **II. BACKGROUND REGARDING THE PCA MECHANISM**

10 **Q. Please provide a brief summary of the Power Cost Adjustment Mechanism.**

11 A. As authorized by the Commission, PSE's PCA Mechanism accounts for
12 differences in PSE's modified actual power costs relative to a power cost baseline.
13 The calculation is performed on using the same methodology shown in PCA
14 Exhibit B from the Settlement Stipulation approved in the Commission's Twelfth
15 Supplemental Order in Docket No. UE-011570 ("PCA Settlement Stipulation").
16 This mechanism accounts for a sharing of costs and benefits that are graduated
17 over four levels of power cost variances. The PCA Settlement Stipulation defines
18 the specific sharing levels and conditions. The PCA Settlement Stipulation is
19 attached as Exhibit A to the Petition.

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

3 A. The following fixed and variable power costs are included in the PCA
4 Mechanism, and are adjusted as described:

5 **Fixed Costs:**

6 For PCA calculation purposes, fixed costs are power production related costs and
7 rate of return. Power production related costs from the most recent general rate
8 case or power cost only rate case are included and do not change from what was
9 approved. These costs are related to production plant, and specifically identified
10 transmission plant and include the associated return on, depreciation, production
11 payroll overhead and taxes, energy taxes and insurance¹. Other fixed costs
12 include FERC Accounts 557 Other production expense, Hydro and Other
13 Production O&M, and 500 KV O&M. Regarding the rate of return, the approved
14 rate from PSE's most recent general rate case or other proceeding is applied as
15 appropriate in the PCA period.

16 **Variable Costs:**

17 PCA variable costs include actual monthly amounts recorded in FERC Accounts
18 501 – Steam generation fuel, 547 – Other power generation fuel, 555 – Purchased
19 power, 447 – Sales for resale, 565 – Transmission of electricity by others. In

¹ Property taxes were removed from the PCA mechanism effective with Docket No. UE-130617.

1 addition, Colstrip major maintenance amortization, variable costs and credits for
2 sales of non-core gas, Transmission Revenue for the specifically identified
3 transmission lines, and costs related to the hedging line of credit are included.
4 Allowed regulatory return on and of regulatory assets and liabilities associated
5 with the types of items that have been approved by order to be recovered through
6 the PCA are also included in variable costs. A list of these regulatory assets and
7 liabilities is provided on pages 7 and 8 of the PCA Annual Report, Exhibit
8 No. ____ (KJB-3).

9 **Adjustments to Variable Costs:**

10 The following are adjustments as determined in Docket No. UE-011570²:

11 Adjustments reflected on Exhibit B:

- 12 1) **Exhibit F** - Colstrip Availability adjustment if the actual
13 availability factor for the four plants at Colstrip falls below a 70%
14 equivalent availability factor. This adjustment would be reflected
15 on PCA Exhibit F, "Colstrip Availability Adjustment". No
16 adjustment under Exhibit F was required in PCA Period 13.
- 17 2) **Exhibit G** - New long-term resource pricing adjustment to bring
18 the variable cost of the new resource to the lower of actual unit
19 cost or the average embedded cost. This adjustment is reflected on
20 PCA Exhibit G, "New Resource Adjustment." No adjustment
21 under Exhibit G was required in PCA Period 13.
- 22 3) **PPA Equity Adjustment** - An adjustment to variable costs is
23 required for the equity component of the Transalta Centralia Coal
24 Transition Power Purchase Agreement ("PPA") approved by the
25 Commission in UE-121373. Consistent with Order No. 3 in UE-
26 121373, Ordering Paragraph 125, PSE accounts for the cost

² Exhibit E was removed from the PCA mechanism effective with Docket No. UE-060266.

1 associated with the equity return component on Schedule B of the
2 PCA mechanism. By including the costs associated with the
3 equity return component on the lines designated in the
4 Adjustments section of Schedule B, the PCA mechanism will
5 account for the total costs associated with the Coal Transition
6 PPA. This type of adjustment is necessary to make actual booked
7 expenses, which do not include regulatory adjustments, match the
8 recovery built into rates. The equity component of PSE's
9 authorized rate of return for the Coal Transition PPA is earned by
10 PSE and recovered in an amount equal to \$1.49/MWh³ for each
11 MWh of energy paid for by PSE under the Coal Transition PPA.
12 During December 2014, PSE purchased 133,020 MWh through the
13 Coal Transition PPA resulting in an adjustment of \$198,200 under
14 Exhibit B.

15 Adjustments not reflected on Exhibit B:

- 16 1) Variable costs incurred may be adjusted for items pursuant to the
17 Methodology for Adjustments of Costs Outside of the PCA Period
18 ("Restatement Methodology"),⁴ which is provided as the third
19 exhibit to my testimony, Exhibit No. ___(KJB-4). There were no
20 adjustments outside of the period that were in PCA Period 13
21 required to be made pursuant to this methodology.
- 22 2) Adjustments to variable costs for items from prior periods that do
23 not meet the requirements for prior period restatement under the
24 Restatement Methodology are flowed through the current month
25 PCA calculation. There was one such adjustment in PCA Period
26 13 that is discussed in more detail below.

27 **Other:**

28 As a result of the settlement in Docket No. 130617, PSE's 2013 power cost only
29 rate case ("PCORC"), PSE, WUTC Staff, Public Counsel, and the Industrial
30 Customers of Northwest Utilities ("ICNU") (collectively, "Parties") have been

³ Paragraph 123 Order No. 03 UE-121373.

⁴ Approved in Appendix B to the Partial Multiparty Settlement Stipulation adopted in Order No. 04 under WUTC Docket No. UE-031389.

1 engaged in a collaborative process related to PSE's PCA mechanism.⁵ On
2 January 6, 2015, Public Counsel, WUTC Staff, and PSE (collectively, "Joint
3 Parties") notified the Commission that as a result of the formal collaborative
4 process, they had reached an agreement on proposed changes to PSE's Power
5 Cost Adjustment. ICNU does not plan to join the settlement. The Joint Parties
6 are currently in the process of filing a settlement agreement and supporting
7 testimony. The proposed effective date of the settlement revisions will be January
8 1, 2017. Accordingly, PSE is filing its exhibits and work papers in this
9 compliance filing in the same manner it has in previous PCA compliance filings.

10 III. PCA PERIOD 13 ACCOUNTING

11 **Q. Please explain how PSE has tracked its PCA Period 13 power costs.**

12 A. There were no significant changes to the PCA Mechanism during PCA Period 13.
13 Each month PSE calculates the power costs subject to PCA sharing using the
14 same methodology shown in PCA Exhibit B from the original PCA Mechanism
15 filing. Allowed power costs include the fixed and variable costs, net of the
16 adjustments discussed above. These total allowable costs are then compared to
17 the approved baseline power cost rate, multiplied by the actual delivered load, and
18 any difference is allocated to PSE or customers based on the different levels of
19 sharing defined in the PCA Mechanism. Any difference allocated to customers is
20 recorded in FERC Account 182.3, Other regulatory assets.

⁵ See Paragraph 25 in Appendix A to Final Order 06 in Docket No. UE-130617

1 Under the PCA Mechanism, the deferred amount at the time of the next PCA
2 annual true-up filing, along with the projected variable and fixed costs through
3 the next proposed rate year could be considered in the determination of any rate
4 change for the subsequent PCA period. Amounts deferred, when authorized, will
5 be amortized to FERC Account 407.3, Regulatory debits or 407.4, Regulatory
6 credits as they are recovered from or refunded to customers. At the time of the
7 filing of this petition such a request is not necessary.

8 PSE accrues interest monthly on any deferred balance (debit or credit) at the
9 interest rate calculated in accordance with WAC 480-90-233(4).

10 **Q. Did the baseline power cost rate change during PCA Period 13?**

11 A. Yes, from January 1, 2014 through November 30, 2014, the baseline power cost
12 rate was \$60.736 per MWh. This baseline rate was approved in PSE's 2013
13 PCORC, Docket UE-130617. The baseline power cost rate for this period is
14 found on page 18 of Exhibit No. ____ (KJB-3).

15 From December 1, 2014 through December 31, 2014, the baseline power cost rate
16 was \$59.819 per MWh. The change to the baseline rate was approved in PSE's
17 2014 PCORC, Docket UE-141141. The baseline power cost rate for this period is
18 found on page ten of Exhibit No. _____ (KJB-3).

1 **Q. What is the actual average power cost rate experienced for PCA Period 13?**

2 A. As shown on page five (Exhibit A-1 Power Cost Rate Updated) of Exhibit
3 No. ___(KJB-3), the calculated average power cost rate experienced for PCA
4 Period 13 is \$62.596 per MWh.

5 **Q. Why did the actual average power cost rate differ from the baseline power**
6 **cost rates in effect during PCA Period 13?**

7 A. The actual average power cost rate differed from the baseline power cost rates in
8 effect during PCA Period 13 due to changes only in the variable components of
9 the PCA mechanism, which are discussed in the prefiled direct testimony of
10 David E. Mills, Exhibit No. ___(DEM-1CT). The calculated actual average
11 power cost rate does not include adjustments to any of the fixed costs included in
12 the baseline rate. In other words, the fixed costs included in the actual average
13 power cost rate represents those costs approved in PSE's 2013 PCORC and 2014
14 PCORC for the appropriate months of PCA Period 13.

15 **Q. How did the actual power costs compare to the average baseline power cost**
16 **rates in effect during PCA Period 13?**

17 A. Actual power costs were higher than the average baseline power cost rates in
18 effect during PCA Period 13 by \$40,127,109 (after adjustment for Firm
19 Wholesale). PSE's share of this under-recovery of power costs is \$30,012,711.

1 The customers' share of this under-recovery of power costs is \$10,114,398. *See*
2 page four of Exhibit No. ____ (KJB-3).

3 **Q. What is the distribution of the resulting cumulative imbalance for sharing at**
4 **the end of PCA Period 13?**

5 A. Considering the activity that occurred in PCA Period 13, the cumulative
6 imbalance for sharing at the end of PCA Period 13 for PCA Periods 1 through 13
7 was an under-collection of \$4,589,482. PSE's share of this imbalance is
8 \$731,105, with the remaining \$3,858,377 assigned to the customer: *See* Exhibit
9 No. ____ (KJB-3), page 4.

10 **IV. ADJUSTMENT OF COSTS MADE UNDER THE RESTATEMENT**
11 **METHODOLOGY**

12 **Q. Were there any adjustments made under the Restatement Methodology for**
13 **power costs in PCA Period 13?**

14 A. There was one adjustment made to SAP variable costs during PCA Period 13.
15 As stated above, the adjustment made to SAP variable costs during PCA Period
16 13 did not meet the requirements for restatement of prior periods and thus was
17 flowed through the PCA calculation in the PCA Period 13 month in which it was
18 identified as governed by section C.2. of the Restatement Methodology. A
19 description of the adjustment follows, and additional support for it is included in
20 the detailed work papers filed in support of Exhibit No. ____ (KJB-3):

1 In December 2014 PSE recorded a debit of \$85,895 in FERC order 547 to adjust
2 the gas for power inventory at Jackson Prairie to lower of cost or market. This
3 debit was excluded from the PCA 13 total allowable costs via a credit adjustment
4 because an inventory write down is considered a non-cash financial adjustment to
5 costs, so it should not impact the PCA.

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

7 A. Yes, it does.