EXHIBIT NO. ___(KJB-1T)
DOCKET NO. UE-13____/UG-13___
PSE EXPEDITED RATE FILING
WITNESS: KATHERINE J. BARNARD

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of **PUGET SOUND ENERGY, INC.'s** **Expedited Rate Filing**	**Docket No. UE-13____** **Docket No. UG-13____**

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

FEBRUARY 1, 2013

PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF KATHERINE J. BARNARD

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PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY OF KATHERINE J. BARNARD

I. INTRODUCTION

Q. Please state your name, business address, and position with Puget Sound Energy, Inc.

A. My name is Katherine J. Barnard. My business address is 10885 N.E. Fourth Street Bellevue, WA 98004. I am the Director, Revenue Requirements and Regulatory Compliance for Puget Sound Energy, Inc. ("PSE" or the "Company").

Q. Have you prepared an exhibit describing your education, relevant employment experience, and other professional qualifications?

A. Yes. It is Exhibit No. ___(KJB-2).

Q. What is the purpose of your testimony?

A. My testimony updates PSE's electric and natural gas costs consistent with the expedited filing method proposed by Commission Staff and commented on favorably by the Commission in PSE's last general rate case, Dockets UE-111048 and UG-111049.[1] I also describe the property tax tracker that the Commission has directed PSE to propose.[2]

II. EXPEDITED RATE FILING

Q. What is the basis for the expedited rate filing presented in this case?

A. Due to the regulatory lag inherent in the historical test period approach to ratemaking, PSE's rates are stale by the time they are implemented. This is particularly true during times when PSE's investment in replacement infrastructure is growing. In PSE's recently completed general rate case, Commission Staff proposed an expedited filing methodology that would allow the Company to update the "relationships between rate base, revenues and expenses"[3] in its rates on an expedited basis in order to address some of the regulatory lag inherent in Washington's historical ratemaking approach. To reduce controversy and allow for the case to be reviewed on an expedited basis, Commission Staff proposed that an expedited filing "could not request a change in the rate of return, except to update debt costs for known changes";[4] "there should be no rate spread

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[1] *See* Elgin, Exh. No. KLE-1T at 80:15 - 84:5 (Dockets UE-111048 and UG-111049); *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08, ¶¶ 505-07 (May 7, 2012) ("Order 08").

[2] Order 08 ¶ 143.

[3] Elgin, Exh. No. KLE-1T at 81:7 (Dockets UE-111048 and UG-111049).

[4] *Id.* at 81:8-9.

or rate design changes";[5] and "the filing would contain "restating adjustments only . . . to 'clean' the books in order to reflect proper ratemaking."[6]

Q. Did the Commission encourage the parties to pursue an expedited filing along the lines suggested by Commission Staff?

A. Yes. In Order 08 in Dockets UE-111048 and UG-111049, the Commission stated it "appreciate(s) Staff's willingness to bring forward the outline of a proposed process mechanism to help address the particular problems associated with PSE's current position in a cycle of capital investment."[7] The Commission stated that it would give fair consideration to a PSE filing along the lines Staff suggested in that case. Additionally, the Commission stated it "would be particularly interested in proposals that might break the current pattern of almost continuous rate cases."[8]

> If PSE accepts Staff's invitation "to meet with PSE to confirm mutual expectations" for a filing along the lines Staff suggests, or the Company on its own initiative makes such a filing, we certainly will give it fair consideration. Alternatively, Staff and PSE may enter into a broader discussion with other interested participants in the regulatory process and bring forward for consideration specific proposals that may satisfy a range of both common and diverse interests. In this connection, the Commission would be particularly interested in proposals that might break the current pattern of almost continuous rate cases. This pattern of one general rate case filing following quickly after the resolution of another is overtaxing the resources of all participants and is wearying to the ratepayers who are confronted with increase after

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[5] *Id.* at 81:12-13.

[6] *Id.* at 81:9-12.

[7] Order 08 ¶ 506.

[8] *Id*. ¶¶ 506-07.

> increase. This situation does not well serve the public interest and we encourage the development of thoughtful solutions.[9]

Q. Did PSE work with Commission Staff and other stakeholders to develop this filing?

A. Yes. PSE discussed several alternatives with Commission Staff and other stakeholders over the past eight months before finalizing this approach.

Q. Is this filing consistent with the approach outlined in Commission Staff's testimony in Dockets UE-111048 and UG-111049?

A. Yes. Although Commission Staff's testimony in that case did not include many details, the testimony was clear that the proposed expedited filing would 1) not include changes in the rate of return, rate spread or rate design and 2) include only restating adjustments that are necessary to reflect proper ratemaking. PSE has incorporated both of these principles into this filing.

Additionally, Commission Staff proposed to use the annual Commission Basis Report ("CBR") format for determining the revenue deficiencies. The last of these reports filed by PSE were based on calendar year December 2011 under Docket UE-120608 for electric operations and UG-120609 for natural gas operations. As the basis of this expedited rate filing, PSE prepared a CBR for the twelve months ended June 30, 2012, consistent with the approach defined in Washington Administrative Code ("WAC") 480-90-257 and WAC 480-100-257.

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[9] *Id.* ¶ 507.

Q. Please explain what costs are included in this filing?

A. Utilizing the CBR for the twelve months ended June 30, 2012, PSE segregated costs into three categories: 1) power cost/purchased gas related, 2) property tax related and 3) all other items. Items included in the "all other" category are the costs that will be used to determine the electric and natural gas revenue requirement deficiency associated with this expedited rate filing.

Q. Why did PSE exclude power costs, purchased gas costs and property taxes from the filing?

A. The primary reason for excluding power costs, purchased gas costs and property taxes is there are other approved or proposed mechanisms in place for addressing changes in those costs. Additionally, in a general rate proceeding, power costs are calculated on a forward-looking, pro forma basis and that methodology would be inconsistent with the historical restating approach embedded in the CBR. Updating power costs would complicate the expedited rate filing and make it more contentious.

PSE excluded property taxes and is proposing a property tax tariff that is consistent with the Commission's desire that PSE bring forward a proposal that will allow for collecting actual property taxes, "no more and no less . . . to be recovered in rates".[10] With the tariff, both the costs and revenues associated with

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[10] Order 08 ¶ 143.

property taxes will be removed from this filing. The proposed property tax tariff is discussed in more detail later in my testimony.

Q. What is the timing of the proposed rate change?

A. PSE is requesting that rates become effective on April 1, 2013.

Q. Is two months reasonable time to allow Commission Staff and other stakeholders an opportunity to review the filing?

A. Yes. Except for moving rate base to end of period amounts, which I discuss later in my testimony, the filing includes only the standard restating ratemaking adjustments, utilizing existing methodologies previously approved by the Commission.

Q. Please explain how this expedited rate filing fits with the decoupling mechanism proposed in Dockets UE-121697 and UG-121705.

A. As discussed in Mr. Piliaris' testimony in Dockets UE-121697 and UG-121705, the revenue per customer figures used in the calculation of the allowed revenue per customer will be updated based on the revenue per customer figures that were approved when rates are updated in either an expedited rate filing or a general rate case.

Q. Please explain Exhibit No. ___(KJB-3)

A. Exhibit No. ___(KJB-3) presents the calculation of the electric revenue deficiency based on the restated test period. Page 1 of Exhibit No. ___(KJB-3) shows the restated test period rate base (line 1) and net operating income (line 6). Based on a rate base of $2,621,991,642, a rate of return of 7.80 percent and an adjusted net operating income of $184,563,096, the Company would have an overall revenue deficiency of $32,163,102. As explained by Mr. Piliaris in his Prefiled Direct Testimony, Exhibit No. ___(JAP-1T), in this proceeding, the tariff increase represents a 1.6 percent average increase for electric customers.

Q. What rate of return is used to determine the revenue deficiency?

A. PSE used the authorized rate of return of 7.80% as determined in Order 08 in Dockets UE-111048 and UG-111049.

Q. Please continue explaining Exhibit No. ___(KJB-3).

A. Page 2 of Exhibit No. ___(KJB-3) determines the Expedited Rate Filing Related Revenues and Expenses. Column A represents the per books results of operations for the twelve months ended June 30, 2012. Column B summarizes the restating adjustments that are standard adjustments as allowed under WAC 480-100-257 to bring the balances to a CBR. Exhibit No. ___(KJB-5), which is described in more detail later in this testimony, supports each of these columns. Columns D, E and F then segregate the balances from column C between the power costs, property taxes and expedited rate filing mechanisms. The amount of revenues reflected in columns D and E are the revenues associated with power costs and property taxes. These revenues were determined by using the revenue per kWh for power costs and property taxes included in rates during the twelve months ended June 30, 2012, multiplied by the weather normalized load for the same period. The amount of expenses included in columns D and E are the actual expenses for the same categories included in column C. Column H pro forms the revenues to reflect the increased revenues in Docket UE-111048. Amounts in column H are supported by Mr. Piliaris in his Exhibit No. ___(JAP-3).

Q. Does the CBR typically include a restating adjustment for revenues?

A. No. Pursuant to WAC 480-100-257(3), there are no pro forma re-pricing adjustments made in a CBR. During discussions with Commission Staff about the proposed expedited rate filing, however, Commission Staff suggested that the increased revenues approved in Docket UE-111048 should be included in the analysis to recognize the rate increase approved in that docket. As a result, page 3 of Exhibit No. ___(KJB-3) segregates the results of the approved revenues and expenses from Docket UE-111048 into the three recovery mechanisms, power costs, property taxes, and expedited rate filing.

Q. Please explain how you segregated the results of Docket UE-111048 into these three recovery mechanisms.

A. Page 3, columns A through E of Exhibit No. ___(KJB-3) are the approved balances from PSE's compliance filing approved in Docket UE-111048. Column F reflects the revenues and expenses associated with power costs as approved in the PCA Exhibit A-1, Power Cost Rate. Column G reflects the level of property tax revenues and expenses currently reflected in baseline rates, which are being removed and will be collected in the new property tax tariff explained later in this testimony. The remaining revenues and expenses, column H, reflect Commission-approved revenues and expenses associated with expedited rate filing categories. As shown by this exhibit, of the $2,039,909,367 of retail revenues approved in Docket UE-111048, $643,516,323 was attributable to expedited rate filing categories. In his Exhibit No. ___(JAP-3), Mr. Piliaris uses the $643,516,323 to determine the portion of the rates approved in Docket UE-111048 that are recovering the expedited rate filing revenues determined in column H on page 3 of Exhibit No. ___(KJB-3). Additionally, Exhibit No. ___(JAP-3) shows the calculation of the total revenue for expedited rate filing categories that would have been recovered during the twelve months ended June 30, 2012, had those rates been in effect for the entire period based on the weather normalized load. Line 51 in column A of page 1 of Exhibit No. ___(JAP-3) shows this total revenue to be $644,234,414. When this re-priced revenue is included in column H on page 2 of Exhibit No. ___(KJB-3), the additional retail revenue to be included in twelve months ended June 30, 2012, is $68,007,263.

Q. Did you make any other adjustments in column G of page 2 of Exhibit No. ___(KJB-3)?

A. Yes. By updating revenues to the level approved in the last general rate case there is a cost recovery built into those revenues that is not reflected in the CBR for the twelve months ended June 30, 2012. When the Company receives the

Treasury Grant associated with Phase 1 of the Lower Snake River Wind Project, PSE must reduce the taxable basis of the project by one-half of the Treasury Grant amount, but PSE must still recover this depreciation from customers. PSE must divide the depreciation by the federal tax rate and revenue-sensitive items because there is no tax basis associated with this depreciation. Otherwise, PSE would not recover its costs associated with depreciating the plant over its life when the revenues are received and taxed. To adjust the restated revenues, the Company has pro formed the cost of these taxes in column G and removed enough revenues from the restated expedited rate filing revenues to cover these costs.

Q. Please finish your explanation of page 2 of your Exhibit No. ___(KJB-3).

A. With the additional revenue included in column G, the rate of return on line 36 increases from 5.49% in column F to 7.04% in column H. This is still less than the 7.80% approved in Docket UE-111048. Therefore, page 1 of Exhibit No. ___(KJB-3) calculates the expedited rate filing increase that would be necessary to allow the Company the opportunity to recover its authorized rate of return, bringing rate base, revenues and expenses in alignment for the current period.

Q. Please describe the purpose of Exhibit No. ___(KJB-4).

A. Exhibit No. ___(KJB-4) presents the calculation of the natural gas revenue deficiency for the restated test period. Page 1 of Exhibit No. ___(KJB-4) shows the restated test period rate base (line 1) and net operating income (line 6). Based on a rate base of $1,592,297,567, a rate of return of 7.80 percent, and an adjusted net operating income of $124,969,751, the Company would have an overall revenue surplus of $1,240,137. As explained in the Prefiled Direct Testimony of Ms. Janet K. Phelps, Exhibit No. ___(JKP-1T), the tariff decrease requested in this filing is $1,240,137, which represents a 0.1 percent average decrease for natural gas customers. Page 2 of Exhibit No. ___(KJB-4) determines the Expedited Rate Filing Related Revenues and Expenses. Column A represents the per books results of operations for the twelve months ended June 30, 2012. Column B summarizes the restating adjustments that are standard adjustments as allowed under WAC 480-90-257 to bring the balances to a CBR. Exhibit No. ___(KJB-6), which is described in more detail later in this testimony, supports each of these columns. Columns D, E and F segregate the balances from column C between the purchased gas, property taxes and expedited rate filing mechanisms. The revenue for the purchased gas adjustment ("PGA") reflected in column D is equal to the restated PGA revenue included in column C that was determined through the CBR process. The revenue for property taxes in column E represents an estimate of the revenues in column C related to property taxes. These revenues were determined by using the revenue per therm for property taxes included in rates during the twelve months ended June 30, 2012, multiplied by the weather normalized restated load for the same period. The amount of expenses included in columns D and E are the actual expenses for the same categories included in column C. Column G pro forms the revenues to reflect the increased revenues in Docket UG-111049. The revenues included in column H are supported by Ms. Phelps in her Exhibit No. ___(JKP-5).

Q. Did PSE re-price the restated results of operations for natural gas for the twelve months ended June 30, 2012, for natural gas rates from Docket UG-111049?

A. Yes. Page 3 of Exhibit No. ___(KJB-4) segregates the results of the approved revenues and expenses from Docket UG-111049 into the three recovery mechanisms, PGA, property taxes, and expedited rate filing. Page 3, columns A through E are the approved balances from PSE's compliance filing approved in Docket UG-111049. Column F reflects the revenues and expenses associated with the PGA. Column G reflects the level of property tax revenues and expenses currently reflected in baseline rates, which are being removed and will be collected in the new schedule 140 tariff which is included with this filing. The remaining revenues and expenses that do not fit into the other two categories, column H, reflect Commission approved revenues and expenses associated with expedited rate filing categories. Based on Exhibit No. ___(KJB-4), of the $439,571,792 of natural gas retail margin revenues approved in Docket UG-111049,[11] $422,155,448 was attributable to expedited rate filing categories.

In Exhibit No. ___(JKP-4), Ms. Phelps uses the $422,155,448 to determine the portion of the rates approved in Docket UG-111049 that are recovering the

[11] $439,571,792 = $1,068,076,205 from column E line 6 less $628,504,413 from column F line 6.

natural gas expedited rate filing revenues. Exhibit No. ___(JKP-5) shows the calculation of the total natural gas revenue for expedited rate filing categories that would have been recovered during the twelve months ended June 30, 2012, had the rates been in effect for the entire period based on the restated weather normalized load. The total reflected in Exhibit No. ___(JKP-5) shows this total natural gas margin revenue to be $430,357,973.

When this re-priced revenue is included on line 5 in column H on page 2 of Exhibit No. ___(KJB-4), the additional natural gas margin revenue to be included in the twelve months ended June 30, 2012, is $7,652,954.

With the additional revenue included in column G, the rate of return on line 36 increases from 7.55% in column F to 7.85% in column H. This additional revenue results in natural gas being slightly surplus when compare to the 7.80% authorized rate of return approved in Dockets UE-111048 and UG-111049. Therefore, as discussed above, page 1 of Exhibit No. ___(KJB-4) calculates the expedited rate filing decrease that would be necessary after bringing rate base, revenues and expenses in alignment for the current period.

Q. Please describe the purpose of Exhibit No. ___(KJB-5) and Exhibit No. ___(KJB-6).

A. Exhibit No. ___(KJB-5) and Exhibit No. ___(KJB-6) represents balances for the twelve months ended June 30, 2012, in a format consistent with CBRs for electric and natural gas operations, respectively. These exhibits provide the basis and support for page 2 of each of Exhibit No. ___(KJB-3) and Exhibit No. ___(KJB-4).

Q. Please describe the purpose and filing requirements associated with the CBRs.

A. Electric and natural gas utilities operating in Washington must file an annual CBR pursuant to WAC sections 480-100-257 for electric companies and WAC 480-90-257 for gas companies. The two codes are identical except for the specific references to electric or gas operations and read as follows;

> (1) Commission Basis Reports are due within four months of the end of a utility's fiscal year.
>
> (2) The intent of the commission basis report is to depict the electric [gas] operations of an electric [gas] utility under normal temperature and power supply conditions during the reporting period. The commission basis report must include:
>
> > (a) Booked results of electric [gas] operations and rate base, and all the necessary adjustments as accepted by the commission in the utility's most recent general rate case or subsequent orders;
> >
> > (b) Results of operations adjusted for any material out-of-period, nonoperating, nonrecurring, and extraordinary items or any other item that materially distorts reporting period earnings and rate base; and
> >
> > (c) Booked revenues and power supply expenses adjusted to reflect operations under normal temperature and power supply conditions before the achieved return on rate base is calculated.
>
> (3) Commission basis reports should not include adjustments that annualize price, wage, or other cost changes during a reporting period, nor new theories or approaches that have not been previously addressed and resolved by the

commission.

(4) Each utility must submit the basis of any cost allocations and the allocation factors necessary to develop the commission basis results of electric operations for the state of Washington.

PSE filed its most recent CBR for the calendar 2011 reporting period on April 30, 2012 in Docket UE-120608 (electric operations) and Docket UG-120609 (natural gas operations). Attached as Exhibit No. ___(KJB-7) and Exhibit No. ___(KJB-8), please find copies of these reports.

Q. Please provide examples of adjustments PSE makes to the reporting period and how they relate to the above WACs.

A. All adjustments included in PSE's 2011 CBR are made pursuant to sub-sections (2)(a), (2)(b), (2)(c) or (4) of the WAC shown above. An example of an adjustment appropriately made under sub-sections (2)(a) and (2)(b) can be found on page 24 of Exhibit No. ___(KJB-7). This adjustment, Pass-Through Revenue and Expense, removes revenues and expenses from the reporting period for adjusting price schedules where there is no income statement impact – some of which are for non-operating (sub-section (2)(b)) – and this adjustment is made in the same manner it is made in a general rate proceeding (sub-section (2)(a)). The temperature normalization adjustment made pursuant to sub-section (2)(c), can be found on page 18 of 36 of Exhibit No. ___(KJB-7) for electric operations. The allocation methods required in sub-section (4) can be found on page 14 of Exhibit No. ___(KJB-7).

Q. In Exhibit Nos. ___(KJB-5) and ___(KJB-6) that are based on the twelve months ended June 30, 2012, did you perform all adjustments that are typically included in the CBR report?

A. No. For purposes of this filing, adjustments relating to power costs were not performed since all power costs are ultimately removed from the results of operations prior to calculating the expedited rate filing revenue requirement.

Q. Please provide an overview of the adjustments made in the Company's June 30, 2012 Electric and Natural Gas CBR.

A. CBRs are presented in a similar manner as the accounting exhibits filed in a general rate case. Page 1 of Exhibit No. ___(KJB-5) and Exhibit No. ___(KJB-6), titled Summary page, presents the unadjusted operating income statement and end of period rate base for the Company as of June 30, 2012, in the column labeled "Actual Results of Operation" for electric and natural gas operations respectively. The various line items are then adjusted for the summarized restating adjustments, to arrive at the "Adjusted Results of Operations". These adjusted results of operations are then used to determine the rate of return and return on equity experienced during the period.

Q. Why is rate base reflected at the end of the test period in the June 30, 2012 report, rather than the test-year average?

A. During discussions with Commission Staff about the proposed expedited rate filing, the concept of using the expedited rate filing process to address the significant lag the Company experiences on its recovery on rate base was explored. It was mutually agreed that reflecting rate base at end of period values would help alleviate this problem, although it does not address all the issues associated with earnings lag between the test year and the rate year.

Q. Has the Commission supported the use of end of period rate base?

A. Yes. In Order 08 in Dockets UE-111048 and UG-111049, the Commission stated that it is open to measuring rate base "at the end, or subsequent to the end of the test-year rather than the test-year average."[12]

Q. Please explain the remaining pages in Exhibit No. ___(KJB-5) and Exhibit No. ___(KJB-6).

A. Pages 2 and 3 of each of Exhibit No. ___(KJB-5) and Exhibit No. ___(KJB-6) present a summary schedule of all the restating adjustments for electric and natural gas operations. The first column of numbers on page 2 is the unadjusted net operating income for the year ended June 30, 2012 and the unadjusted end of period rate base for the same period. Each column to the right of the first column represents a material expedited rate filing-related restating adjustment to net operating income or rate base that is necessary to reflect the results of operations. Each of these adjustments has a supporting schedule, which is referenced by the page number shown in each column title. The last column, shown on the summary schedule on page 3 of each of Exhibit No. ___(KJB-5) and Exhibit

[12] Order 08 ¶ 491.

No. ___(KJB-6), summarizes all of the adjustments. The following outlines each of the adjustments reflected on pages 2 and 3 of each of Exhibit No. ___(KJB-5) and Exhibit No. ___(KJB-6).

Adjustments 5.01E & 6.01G – Temperature Normalization

This adjustment restates test period delivered load and revenue to a level that would have been expected to occur had the temperatures during the reporting period been "normal".

For electric operations, the difference between the actual reporting period Generated, Purchased and Interchange ("GPI") load and the temperature normalized GPI load in megawatt hours ("MWH") is adjusted for system losses. The result of this calculation is then allocated to the rate classes. The revenue impact based on the applicable end step energy rate in effect during the reporting period for each rate class is then calculated. The temperature load adjustment decreases actual GPI by 104,786 MWH, or 97,555 MWH when adjusted for line losses. After allocation to the different customer classes, this adjustment decreases net operating income for electric operations by $6,023,184. The weather normalization methodology is performed in the same manner as in a general rate case.

For natural gas operations, the system-level temperature adjustment was calculated in total and allocated to each of the applicable classes by month based on the same gas temperature adjustment methodology used in Docket UG-111049.

Because actual weather during the test year ended June 30, 2012, was colder than normal, the adjustment is a reduction of 29,093,052 therms. When priced by rate schedule, the adjustment yields a reduction to test year revenue of $28,424,726. After adjusting for purchased gas costs, this adjustment decreases net operating income for natural gas operations by $5,935,809.

Q. Please continue describing the adjustments.

A. The next adjustments are as follows:

<u>Adjustments 5.02E & 6.02G – Revenues and Expenses</u>

This adjustment, removes the following rate schedules that are not general tariffs:

- **<u>Schedule 95 A Federal Incentive Tracker (Electric Only)</u>**
  - **<u>Treasury Grants</u>**

    Treasury Grants on the wind plants are passed back to customers under Schedule 95A. This adjustment removes the revenue and associated amortization from the reporting period and is made in the same manner as in a general rate case.

  - **<u>Production Tax Credits</u>**

    Pursuant to Docket UE-101581, PSE will pass back, under Schedule 95A, Production Tax Credits ("PTCs") received from its wind facilities once their benefit is realized by utilization on a tax return. As PSE generates PTCs, PSE records the liability to customers that will be paid in the future when the PTCs are utilized on PSE's tax return. The PTC future liability accrual is removed from the reporting period on this adjustment. This adjustment impacts electric only and is made in the same manner as in a general rate case.

- **<u>Merger Rate Credits</u>**

  Credits passed back to customers under Schedule 132 for merger savings, as required in Docket U-072375 impact both electric and natural gas. This adjustment removes the revenues from the reporting period as they are not a part of base rates. This adjustment is made in the same manner as in a general rate case.

- **<u>Other Restating Adjustments</u>**

  The natural gas adjustment includes other necessary test period true up adjustments and adjustments to remove the revenue and load for large and special customers who left PSE's system during the reporting period. Both types of adjustments are consistent with what was filed in Docket UG-111049. Please refer to the Prefiled Direct Testimony of Janet K. Phelps, Exhibit No. ___(JKP-1T), for further discussion of these adjustments.

As a result of these adjustments, net operating income for electric operations is increased by $28,331,887 and net operating income for natural gas operations is decreased by $2,192,728.

Adjustment 5.04E – Regulatory Credits

This restating adjustment removes the effects of the cost deferrals associated with Phase 1 of the Lower Snake River Wind Project that were booked during the test period. This adjustment impacts electric only and decreases net operating income for electric operations by $6,092,535.

Adjustments 5.05E &6.03G -- Federal Income Taxes

The per books pre-tax net operating income or loss in the reporting period reflects tax entries booked during the reporting period and includes tax entries that are not relevant to actual reporting period revenues and expenses. In calculating federal income tax expense for electric and natural gas operations for purposes of the CBRs, PSE adjusts the actual federal income tax expense to the estimated effective tax rate of 36% for both electric and natural gas operations. The estimated effective tax rate reflects the impact of flow-through taxes. This estimated effective tax rate does not include the effects of PTCs or the tax amortization of the Tenaska regulatory asset fully amortized for book purposes in December 2011. This adjustment decreases net operating income for electric operations by $8,830,664 and decreases net operating income for natural gas operations by $14,255,275.

Adjustments 5.06E & 6.04G– Tax Benefit of Restated Interest

This restating adjustment matches the tax deduction for interest expense to the new capital structure, interest rates and the restated rate base included in a CBR filing. PSE multiplies the restated rate year rate base by the weighted cost of debt for the period. The result is the restated interest expense included as part of the CBR filing. PSE then calculates the difference between the restated interest expense and the actual interest expense from the reporting period. PSE then multiplies the difference by the tax rate of 35% to determine the incremental impact on net operating. This adjustment increases net operating income for electric operations by $9,321,214 and increases net operating income for natural gas operations by $2,990,974.

Adjustments 5.07E & 6.05G– Pass Through Revenue and Expenses

This restating adjustment removes from operating revenues all rate schedules that are a direct pass through of specifically identified costs or credits to customers, such as the conservation rider, municipal taxes and the low income program. The associated expense recorded in the reporting period for these direct pass through tariffs are also removed in this adjustment.

For electric operations, the residential exchange benefits provided by the Bonneville Power Administration and revenue and certain expenses for the green power program are also removed. Renewable energy credit ("REC") revenues passed back to customers under Schedule 137 have been removed as well as the associated expense that was recorded to FERC 456 to recognize the recording of the regulatory liability for PTCs which were being recovered during the reporting period as authorized in WUTC Dockets. UE-070725 and UE-101581.

For natural gas operations, the revenue and expenses for the carbon offset program and the purchased gas amortization are removed.

The net impact of this adjustment is to decrease net operating income for electric operations by $117,094 and increase net operating income for natural gas operations by $320,626.

Adjustments 5.09E & 6.07G– Bad Debt Expense

This restating adjustment, which is applied in the same manner as in a general rate case, calculates the appropriate bad debt rate by using the average bad debt percentage for three of the last five years after removing the high and low years which apply to electric and natural gas operations. The net reporting period revenues are multiplied by the calculated average bad debt percentage to determine the amount of restated bad debt expense. This amount is compared to the actual reporting period level of bad debt expense to determine the effect on income. This bad debt percentage is also used in the conversion factor used in the various CBR adjustments that impact revenues.

This adjustment increases net operating income for electric operations by $349,801 and increases net operating income for natural gas operations by $254,204.

Adjustments 5.10E & 6.14G– Incentive Pay

This restating adjustment uses a four-year average of incentive compensation paid to employees and is allocated between electric and natural gas operations. Officer incentive pay is excluded from the calculation, consistent with PSE's voluntarily decision in the Dockets UE-111048 and UG-111049 not to request recovery of officer incentives in recognition of the difficult economic times in our communities.[13] For this calculation, the Company has used the payouts which occurred during March of the years 2009 through 2012 for the calendar years 2008 through 2011 and allocated the four-year average to electric and natural gas using the labor benefits assessment distribution allocator. The incentive payment is allocated to O&M expense and other accounts based on where payroll was charged during the reporting period.

This adjustment increases net operating income for electric operations by $1,923,841 and increases net operating income for natural gas operations by $966,060.

Adjustment 5.15E – Accounting Standards Codification ("ASC") 815[14]

This restating adjustment removes the effect of ASC 815, which represents mark to market gains or losses recognized for derivative transactions. This accounting pronouncement is not considered for ratemaking purposes and is thus considered

[13] *See* Hunt, Exh. No. TMH-1T at 7:15-19 (Dockets UE-111048 and UG-111049).

[14] This was formerly known as SFAS 133.

non-operating for purposes of preparing the CBRs. This adjustment increases net operating income for electric operations by $13,040,502.

Adjustments 5.16E & 6.10– Pension Plan

This restating adjustment calculates pension expense based on a four-year average of cash contributions to the Company's qualified retirement fund.

As determined by the plan actuary, the Company made the following tax deductible cash contributions during each of the twelve-month periods ending in June: $30.5 million in 2009, $24.4 million in 2010, $5 million in 2011 and $11.4 million in 2012. These total $71.3 million for the four-year period ending with the CBR reporting period. The qualified retirement plan is allocated to O&M based on the distribution of wages and then allocated between electric and natural gas based on the employee benefit assessment allocator from page 15 of Exhibit No. ___(KJB-5).

This adjustment decreases net operating income for electric operations by $1,920,125 and decreases net operating income for natural gas operations by $970,759.

Page 5.19E & 6.15G – Conversion Factor

The conversion factor is used in various CBR adjustments that impact revenues. The revenue sensitive items are the Washington State utility tax, Washington Utilities and Transportation Commission annual filing fee, and bad debts.

Page 5.20E & 6.16G – Allocation methods

The allocation factors are used to allocate common expenditures between electric and natural gas operations. The methodology used to develop the allocation factors are consistent with those used in Dockets UE-111048 and UG-111049.

Q. Please summarize the restated results of operations for the twelve month test period ending June 30, 2012.

A. As shown on page 1 of Exhibit No. ___(KJB-5), the electric CBR adjusted results show a normalized overall rate of return of 6.00%.

Similarly, on page 1 of Exhibit No. ___(KJB-6), the natural gas CBR adjusted results show a normalized overall rate of return of 7.39%.

III. PROPERTY TAX TRACKER

Q. What direction did the Commission provide in the Company's last general rate case with respect to the recovery of property taxes?

A. In Order 08 in Dockets UE-111048 and UG-111049, the Commission found merit in a proposal by PSE that property taxes should be treated similar to municipal taxes and allowed to be passed through by means of a rider.[15] The Commission required that PSE bring forward a proposal for the recovery of actual property taxes, "no more and no less,"[16] by means of a rider, in its next general rate case

[15] Order 08 ¶ 143.

[16] *Id.*

filing. As PSE is proposing not to file a general rate case in the near future and instead rely on several new regulatory proposals the Company is including a property tax rider in this filing.

Q. Please explain how the property tax rider would be implemented.

A. For property taxes associated with the January 1, 2012 lien date and a payment date in 2013, PSE proposes to begin recovery of electric and natural gas property taxes that are being recovered in general tariff rates through the new tariff rate, Schedule 140. Upon approval of this property tax tariff, PSE will reduce general tariff rates that are currently effective from Dockets UE-111048 and UG-111049 by the amount of property taxes approved in that proceeding. Concurrently, PSE will implement rates in Schedule 140 which are equivalent to the general rate tariff reductions. The amount of decrease to general tariff rates will equal the amount of increase to Schedule 140, and, therefore, this initial adjustment will result in no change to overall customer rates.

The amount of property taxes to remove from each general tariff rate schedule will be based on the allocation of these costs in PSE's cost of service studies in Dockets UE-111048 and UG-111049, where property taxes were allocated to schedules based on plant. For each schedule, the allocated property taxes will be removed from the volumetric rate (typically the kWh or therm charge). For services that do not have volumetric charges, the costs will be removed on a per unit basis.

The volumetric rates used to remove the costs from general tariff rates from each schedule will then be included by schedule in Schedule 140. For services that do not have volumetric charges, the rates will be set on a per unit basis. This methodology will ensure that costs to be included in the tracker are included in the same manner they were removed from base rates.

Exhibit No. ___(KJB-9) and Exhibit No. ___(KJB-10) are the proposed tariff pages that follow the methodology described. The actual tariff pages will be filed upon approval of the property tax tariff with the corresponding reduction to base rate tariff schedules occurring at that time.

Q. What are the amounts that would be moved from the natural gas and electric general rate tariffs to the property tax tariff?

A. The amounts to be removed from general rate tariffs are the pro forma amounts allowed for each of the services in Dockets UE-111048 and UG-111049. The table below details these allowed amounts:

Description	Electric	Gas	Combined
Expenses Approved In UE-111048 & UG-111049			
Recovered through the PCA mechanism	$ 19,158,212	$ -	$ 19,158,212
Recovered in General Rates	20,522,909	16,652,446	37,175,355
Total Expenses	$ 39,681,121	$ 16,652,446	$ 56,333,567
Conversion Factor	0.954998	0.956139	
Revenue Requirement			
Recovered through the PCA mechanism	$ 20,060,997	$ -	$ 20,060,997
Recovered in General Rates	21,490,002	17,416,344	38,906,346
Total Revenue Requirement Deficiency	$ 41,550,999	$ 17,416,344	$ 58,967,343

Q. Are the allowed property tax amounts included in general rates the same as the actual amounts paid in property taxes in 2012?

A. No, the actual taxes paid in 2012 were $54,320,667. The $2,012,900 difference between the $56,333,567 approved in rates and the amount actually paid is made up of the following:

Description	As Approved	Actual Payment	Approved > Paid
1/1/2011 Property	$ 54,400,580	$ 54,320,667	$ 79,913
LSR Proforma	1,932,987		1,932,987
Total	56,333,567	54,320,667	2,012,900

The property taxes on Phase 1 of the Lower Snake River Wind Project included in Docket UE-111048 were based on total project cost, which included property taxes that will become payable in April 2013.

Q. If the property tax tariff is being designed to recover actual property taxes paid in 2013, how does the Company propose to account for the pro forma taxes associated with Phase 1 of the Lower Snake River Wind Project that were being recovered between May 2012 and April 2013, the rate year for Docket UE-111048?

A. The property tax tracker is intended to recover actual property taxes paid in 2013 and future years. Therefore, PSE is requesting that effective with approval of this property tax tariff, PSE will defer the revenue for property taxes associated with Phase 1 of the Lower Snake River Wind Project included in rates in Docket UE-

111048 by crediting a new regulatory asset account, which will be used to track the total assessed and paid electric property taxes. This entry will be included in the calculation of the revenue requirement for the May 2013 property tax rate change associated with the 2013 property taxes that are going to be paid this year.

Q. Please explain how the Company will determine the amount of property taxes to be collected under the new property tax tariff.

A. PSE's annual property tax payments associated with a January 1 lien date become known in April of the following year. The tax payments are due to the tax jurisdictions in the State of Washington in two installments – one in April and one in October of that year.[17] PSE proposes that Schedule 140 include the recovery of these actual property tax payments over the annual period in which they are made, starting just after the April installment. To achieve this, PSE will need to file for the annual rate change with less than statutory notice. PSE is requesting that the annual rate change filings be filed by each April 15th for rates effective on May 1st for that year. The first rate change that will occur under Schedule 140 will occur in May of 2013 for the property tax payments that become known in April 2013 related to the January 1, 2012 lien date, less the amount related to LSR1 already being collected in rates as previously discussed. An alternative approach

[17] The discussion is focused on the State of Washington because it is the state in which PSE incurs the majority of its property tax payments and it is the longest property tax cycle of the three states in which PSE pays property taxes. Property taxes in Oregon and Montana become known and payable prior to those in Washington. Oregon and Montana property taxes on property with the equivalent lien dates to Washington will be included in Schedule 140 on the Washington state timeline. This is consistent with how they were treated in the 2011 general rate case.

would be to file April 15 with rates effective May 15. However, this approach runs counter to other parties' desire to avoid frequent rate changes, as May 1 is the effective date of electric and natural gas conservation rider rate changes.

Q. Are all property tax amounts known as of a given year's lien date?

A. Occasionally PSE does not receive a bill for property taxes from a given county ("Delayed Billing County") by the deadline of 30 days before the first installment, or March 30th of a given year. If this occurs, PSE will include in the property tax payments to be set in rates an estimate of taxes equal to the prior year's tax.

Q. How will the Company correct this estimated property tax payment?

A. Beginning in May of 2014, in addition to the current amount of property tax payments for property values associated with the prior year's January 1 lien date, the annual rate change will include a true-up for: 1) differences between the property tax payments set in rates in the previous year and the actual property tax payments made related to the previous year (e.g., estimates for Delayed Billing Counties being different from actual payments); 2) differences between the amount expected to be recovered and the amount actually recovered due to variances between the load used to set the rate and actual load experienced during the period; and 3) property tax refunds or other adjustments received or paid associated with property with lien dates on or after January 1, 2012.

Any refunds or other adjustments received or paid that relate to lien dates prior to January 1, 2012 will not be subject to Schedule 140 or the provisions of this property tax tariff. This is necessary as the collection of the underlying property taxes for which the refunds or adjustments would relate are likewise not subject to Schedule 140 or to this accounting petition as they were included in general rates prior to the property tax tariff.

Q. Does the Company plan to adjust the property tax tariff each year?

A. No. When the change in the property tax revenue requirement in a given year results in an amount that is less than one percent (1.0%) ("1% Threshold Amount") greater or less than the prior year's revenue requirement, PSE proposes that the annual filing submitted would be a letter stating that no change to the rates in Schedule 140 will be submitted. The 1.0% Threshold Amount that is not passed through in one year will be included as an addition or deduction to the following year's revenue requirement when setting rates for Schedule 140. This will occur naturally as the actual amount collected for property taxes will be compared to the actual amount spent on property taxes and the difference will be included in the next year's true up.

Q. Is PSE proposing a change to the calculation of the Power Cost Adjustment baseline rate for production related property taxes?

A. Not at this time. As the property taxes currently recovered in the PCA mechanism will be recovered in Schedule 140 instead of the general rate tariff, no adjustment to the PCA baseline rate for the PCA mechanism is necessary at this time. In the Company's next PCORC filing, property taxes can be removed from the calculation of the baseline rate. There will be no need to track this cost as only the amount spent on property taxes will be collected from customers in the new tariff. When the revenue deficiency is calculated in that future PCORC both the current baseline rate and the new baseline rate to be set in that PCORC would exclude production property taxes.

Q. Would you please summarize what PSE is requesting the Commission approve as it relates to the new property tax tariff?

A. Beginning May 1, 2013, PSE requests the authority to track the true-up for property tax payments made, for refunds or other adjustments and for variance in load in a regulatory asset account in the following manner.

As the total amount of assessed property taxes payable become known each April, PSE will defer the payments by debiting separate accounts for electric and natural gas service in FERC Account 182.3 and crediting property taxes payable in FERC Account 236 for the total amount of assessed property taxes. The property tax payable account will be cleared partially in April and substantially in October when the property tax payments are actually remitted to the tax jurisdictions in the State of Washington. When received or incurred, PSE will defer in the same manner: 1) applicable refunds or other adjustments received or paid; and 2) differences resulting from Delayed Billing Counties. These deferrals will be included as part of the true-up in the next annual rate filing.

As property taxes are recovered in Schedule 140, PSE will debit property tax expense, FERC Account 408.1 and credit the regulatory asset in FERC Account 182.3 for the appropriate energy service. Amounts booked each month will be one-twelfth of the total assessed property taxes that were included in rates in the given rate period. To the extent that the monthly Schedule 140 revenues, net of revenue sensitive items, differ from the ratable property tax expense booked for that month, the difference will be recognized in the appropriate 182.3 account. This balancing entry will be made to the appropriate FERC Account 182.3 by type of energy service with the corresponding charge – if net revenue exceeds amortization – or credit – if amortization exceeds net revenue – being recognized in FERC Account 408.1.

As the balance of the FERC Account 182.3 for property taxes, by type of energy service, will reflect all the differences between the amount owed for property taxes and the amount collected from customers, these accounts will be used for the true-up in each year's rate filing. This true-up will be recovered or passed back over the next twelve months through Schedule 140.

IV. LOW INCOME FUNDING

Q. Does PSE have a proposal regarding Low Income Bill Assistance Program funding?

A. Yes, PSE proposes that the total low-income bill assistance program funding be increased by 1.7%. PSE recommends that the increase in ratepayer funding take place as part of the normal ongoing annual true-up compliance filing (on August 31), as provided for in the original settlement terms for low income payment assistance. Under the company's proposal, low income funding would increase from $20.2 million to $20.5 million annually, and be allocated between electric and natural gas in the same manner as is currently performed.

V. CONCLUSION

Q. Does this conclude your testimony?

A. Yes it does.