EXH. SEF-8
DOCKET UE-20___
2020 PSE PCORC
WITNESS: SUSAN E. FREE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent**	**Docket UE-20____**

SEVENTH EXHIBIT (NONCONFIDENTIAL) TO THE PREFILED DIRECT TESTIMONY OF

SUSAN E. FREE

ON BEHALF OF PUGET SOUND ENERGY

DECEMBER 9, 2020

The Regulatory Theory Behind the Use of a Production Factor:

PSE has utilized a production factor in developing its revenue requirement since the 1970s.[1] When a utility uses (i) rate year power costs in its revenue requirement and (ii) test year normalized load to spread that revenue requirement to develop the rates, it is necessary to apply a production factor on the rate year power costs. As the Commission has noted, "[t]he production factor is applied so that power and production-related costs are built into rates ***at the same unit cost*** when spread over test year loads as they would be using rate year costs spread over rate year load." (emphasis added)[2]

This concept is depicted in the following table:

Line	Description	Rate Year	Production Factor	Test Year
	a	b	c	d
1	Power Costs*	$ 754,174,834	1.01684	$ 766,875,332
2	Load in kWh	19,359,468,124		19,685,486,546
3	Unit Cost in MWh	$3.90	<-----same----->	$3.90
4	* Test Year Power Costs = Rate Year Power Costs X Production Factor			
5	and Production Factor = Test Year Load ÷ Rate Year Load			

If a production factor is not used, power costs will be under-recovered in the rate year, assuming negative load growth as is the case here.[3] This is demonstrated by the following table.

[1] *See WUTC v. PSE*, Dockets UE-090704 and UG-090705, Order 11, ¶ 219 (April 2, 2010) (noting that the production factor was first adopted in the 1970s).

[2] *Id.*, ¶ 217.

[3] As the Commission noted in PSE's 2009 GRC, the production factor can increase or decrease power costs depending on whether load is growing or decreasing. *Id.*, ¶¶ 219, 224-226.

Line	Description	Without Production Factor	With Production Factor
a	b	c	d
1	Power Costs	$ 754,174,834	$ 754,174,834
2 = 4 ÷ 6	Production Factor	1.00000	1.01684
3 = 1 x 2	Power Costs Used in Revenue Requirement	$ 754,174,834	$ 766,875,332
4	Normalized Test Year Load in MWh's used to Set Rates	19,685,486,546	19,685,486,546
5 = 3 ÷ 4	Rate per MWh set in rates	$ 0.0383	$ 0.0390
6	Rate Year Load in MWh's	19,359,468,124	19,359,468,124
7 = 5 x 6	Power Costs Recovered	$ 741,684,673	$ 754,174,834
8 = 7 - 1	Recovered Power Costs vs. Power Costs Allowed	$ (12,490,161)	$ 0

The normalized test year load, (item 4) in the above table, is made up of test year load plus the temperature normalization adjustment. In order for the production factor to have the appropriate impact as demonstrated above in column d, the production factor and the rate spread/rate design must use the same normalized test year load (item 4). Additionally, the same normalized test year load must be used for the Power Cost Baseline Rate which is used in accounting for PSE's Power Cost Adjustment Mechanism. Beginning with this proceeding, the load used will exclude the load used to serve Green Direct customers as further discussed by PSE Witness Mr. Birud D. Jhaveri.