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Filed Via Web Portal

Mr. Mark L. Johnson, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Re: PSE's Response to Disputed Electric Compliance Filing
Dockets UE-190529, UG-190530, UE-190274, UG-190275, UE-171225, UG-171226, UE-190991, and UG-190992 (consolidated)

Dear Mr. Johnson,

Puget Sound Energy ("PSE") appreciates the opportunity to respond to Commission Staff's response letter dated September 30, 2020 addressing PSE's electric compliance filing in this docket ("Staff Response Letter"). There are two issues PSE asks the Commission to consider: (i) approval of PSE's electric compliance filing pursuant to WAC 480-07-880(6), including approval of its Power Cost Adjustment Mechanism baseline rate, despite a variance from one aspect of the Order Granting Motion for Clarification ("Clarification Order"); and (ii) a determination that PSE has complied with the requirement to file a report of the balance of the Colstrip 1 and 2 Regulatory Asset Balance per paragraph 35 of the Clarification Order. Each of these issues is discussed below.

1. <u>Disputed Issue: Power Cost Calculation with Revised Production Factor</u>

PSE understands that Commission Staff disputes one of the five items listed on page 2 of the Staff Response Letter. A copy of the items listed on page 2 is provided below. Based on the third paragraph in Staff's conclusion on page 5 of the Staff Response Letter which cites paragraph 37 of the Clarification Order, PSE understands that Commission Staff views only the production factor totaling $1.2 million on page 2 as non-compliant with the Commission's Final Orders.

Per Order 10, Revised Appendix A	**$30,997,458**
PSE's Compliance Filing	
Return on AMI rate base	$(5,030,221)
Update to estimates	
Sch. 95, Storm Amortization, Environmental Amortization, Decoupling, Protected Plus EDIT reversals, and Unprotected EDIT reversals	$(398,234)
Power cost calculation with revised production factor	
Consistent production factor	$1,212,602
Incremental power cost adjustments	$896,739
Rounding in base rates	$2,784
Total	**$27,681,127**

As discussed in more detail below, PSE's compliance filing uses a different production factor than was ordered in paragraph 37 of the Clarification Order due to the inconsistent ancillary impacts that occur when using the ordered production factor. PSE believes it is important to understand these impacts for this and future filings and appreciates the opportunity to provide this information. PSE's response explains why PSE used the production factor as filed in PSE's compliance filing.

A. 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."[2] If a production factor is not used, power costs will be over-recovered in the rate year, assuming load growth as is the case here.[3] This is demonstrated by the following table.

[1] *See WUTC v. PSE*, Dockets UE-190704 and UG-190705, 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.

	Description		Without Production Factor		With Production Factor
			A		B
1	Rate Year Power Costs Approved	$	1,000,000	$	1,000,000
2 = 4 ÷ 6	Production Factor		N/A		0.952381
3= 1 x 2	Power Costs Used in Revenue Requirement	$	1,000,000	$	952,381
4	Normalized Test Year Load in MWh's used to Set Rates		20,000,000		20,000,000
5 = 3 ÷ 4	Rate per MWh set in rates	$	0.0500	$	0.0476
6	Rate Year Load in MWh's		21,000,000		21,000,000
7 = 5 x 6	Power Costs Recovered	$	1,050,000	$	1,000,000
8 = 7 - 1	Recovered Power Costs vs. Power Costs Allowed	$	50,000	$	-

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 B, the production factor and the rate spread/rate design must use the same normalized test year load (item 4).

B. <u>The Difference Between the Production Factor Ordered in Paragraph 37 of the Clarification Order and that used in PSE's Compliance Filing:</u>

Bench Request No. 11 part A.i.3 requested PSE to update the temperature normalization adjustment to Staff's recommended calculation. As demonstrated above, a change to the temperature normalization results in a change in the normalized test year load. Thus, the update to the temperature normalization resulted in the update to the production factor. This can be seen in the work papers filed in support of the production factor in Bench Request No. 11[4].

PSE's compliance filing production factor uses the same normalized test year load that is used in the rate spread/rate design which results in the required consistency discussed above. In contrast, the production factor that the Commission ordered for power costs utilizes a different normalized test year load than that used for rate spread/rate design and creates inconsistencies. These differences are demonstrated below.

[4] Amounts in tab "Production Factor" in the file named "190529-30-PSE-WP-SEF-21.01E-PowerCosts-19GRC-01-2020.xlsx" link to the updated test year normalized load presented in tab "Proforma kWh & Revenue" (which is a revision to the first page of Exh. JAP-3) in the file named "NEW-PSE-WP-JAP03-ELEC-NORM-MO-REV-19GRC-06-2019(C).xlsx" via the "Average Cost & Prod Factor" tab within the same file.

Description	Per ¶ 37 (PSE Rebuttal)	Compliance Filing (BR 11)
Test Year Load in KWh's (Note 1)	20,368,059,498	20,368,292,268
Temperature Normalization from Rebuttal Filing (Note 3)	135,247,698	
Temperature Normalization per Bench Request 11 (Note 2)		167,456,235
Normalized Test Year Load for Production Factor	20,503,307,196	20,535,748,503
Rate Year Load (Note 4)	21,485,116,000	21,485,116,000
Production Factor	0.954303	0.955813

(Note 1) **¶ 37 (PSE Rebuttal)**
Exhibit JAP-03 Page 1 Cells E39 through H39 minus Cells E33 through H33

Compliance Filing (BR 11)
File: "NEW-PSE-WP-JAP03-ELEC-NORM-MO-REV-19GRC-06-2019(C).xlsx"
Tab: "Proforma kWh & Revenue"
Cells E39 through H39 minus Cells E33 through H33

(Note 2) This is the result of the update to temperature normalization per A.i.3. of Bench Request 11
File "190529-30-PSE-WP-SEF-18.00E-ELECTRIC-MODEL-REBUTTAL-19GRC-01-2020.xlsx"
Tab "Common Adj"
CellN14 ALSO IN ↓
File "NEW-PSE-WP-JAP03-ELEC-NORM-MO-REV-19GRC-06-2019(C).xlsx"
Tab "Proforma kWh & Revenue"
Cell H39 minus Cells H25

(Note 3) Rebuttal Filing
Exhibit JAP-03 Page 1 Column (g) Line 31 (Cell H39)

(Note 4) Bench Request 11
File "NEW-PSE-WP-JAP03-ELEC-NORM-MO-REV-19GRC-06-2019(C).xlsx"
Tab "Average Cost & Prod Factor"
CellG39

C. <u>The Use of Different Loads for the Production Factor and Setting Rates Appears to Be an Unintended Consequence of the Clarification Order</u>

PSE was not able to recalculate the Commission's determination of power costs in Final Order No. 08 and requested clarification of how it was calculated.[5] Because PSE was unable to determine how the power costs in Order No. 08 were calculated and the change to the production factor was not referenced in Order 08, PSE was unaware that the Commission had used a production factor that had not been updated for the temperature normalization change in Bench Request No. 11. Therefore, PSE did not raise its concerns with using different normalized test year loads for the production factor than used to develop rates in its Motion for Clarification. It was not until the Commission issued the Clarification Order that PSE understood this to be part of the unreconciled difference. While PSE initially tried to work with these different normalized test year loads in its compliance filing, it became apparent that doing so would have unintended negative impacts as discussed below.[6]

Of additional relevance is the fact that there was no evidence in this case to suggest that a different load should be used for the production factor than was used for the rate calculations.

[5] Motion for Clarification at ¶25.
[6] In the future, when such an issue arises, if the time for seeking further clarification has passed, PSE will explain the adjustment more thoroughly in the compliance filing cover letter as PSE did in this case with the removal of test year AMI rate base.

And PSE is unaware of any party having presented such an argument in prior cases. In the Clarification Order, the Commission did not order that the load used for the production factor and that used for rate calculations should be different. Based on the above, it appears that the Commission did not intend the final orders to result in the above inconsistency and that the resulting inconsistency was unintentional. Therefore, the change PSE made in its compliance filing was intended to reestablish the consistent use of load for the production factor and for rate spread/rate design purposes.

D. The Impact of Using Inconsistent Loads in the Production Factor and the Rate Spread/Rate Design

The impact of using inconsistent loads in the production factor and the rate spread/rate design is that the resulting rates are not sufficient to recover the allowed rate year power costs. This is demonstrated below. All amounts not footnoted below come from the supported amounts in the above table.

	Description	Order	Compliance
		A	B
1	Rate Year Power Costs Allowed (Note 1)	$ 745,841,945	$ 745,841,945
2	Normalized Test Year Load	20,503,307,196	20,535,748,503
3	Rate Year Load	21,485,116,000	21,485,116,000
4 = 2 + 3	Production Factor	0.954303	0.955813
5 = 1 x 3	Power Costs set in Rates	$ 711,759,086	$ 712,885,265
6	Normalized Test Year Load used to Set Rates	20,535,748,503	20,535,748,503
7 = 5 ÷ 6	Rate per KWh set in rates	$ 0.034660	$ 0.034714
8 = 3	Rate Year Load	21,485,116,000	21,485,116,000
9 = 7 x 8	Power Costs Recovered	$ 744,663,703	$ 745,841,945
10 = 9 - 1	Recovered Power Costs vs. Power Costs Allowed	$ (1,178,242)	$ -
(Note 1)	Bench Request 11 File "190529-30-PSE-WP-SEF-18.00E-ELECTRIC-MODEL-REBUTTAL-19GRC-01-2020.xlsx" Tab "Power Cost Bridge to A-1" Cell I21 minus Cell I16 plus cell I27 Less Power Cost Adjustments Required per Order: $13,053,000 Green Direct and $6,249,000 Power Cost Modeling		

As can be seen in the above table, requiring PSE to use a different normalized test year load for the production factor than the normalized test year load used to develop the rates inadvertently breaks the foundation on which the production factor is based and results in rates that are not sufficient to recover PSE's allowed power costs.

Furthermore, there are additional adverse impacts to consider. Normalized test year load is also used in the development of the Power Cost Adjustment Mechanism ("PCA") baseline rate ("BLR"). The normalized test year load used for the PCA should be the same as that used for the production factor and for developing rates. The normalized test year load is not in dispute in this proceeding and is not referenced in the Commission's final orders. For the PCA BLR requested for approval in its September 23, 2020 compliance filing, PSE used the normalized test year load used to develop rates (the 20,535,748,503 MWh's referenced in the above two tables). If an inconsistent load is used for the PCA BLR, the following issues would arise:

1. The PCA BLR is used in calculating the PCA imbalance for sharing with customers under the PCA mechanism. If the normalized test year load from the Commission's ordered production factor is used, rather than the load used to develop rates, PSE's PCA BLR would be set artificially high (because the ordered production factor load which is the denominator in the equation is lower than the load used to develop rates). PSE's PCA imbalance is calculated by subtracting PCA allowed costs from PCA revenue recovered. The PCA revenue recovered is calculated by applying the PCA BLR to PSE's actual monthly rate year loads. If the load used to determine the PCA BLR is set artificially low, the PCA BLR itself would be set artificially high, which would result in PSE's PCA imbalance for sharing calculation including an artificial over-collection. PSE estimates under the current circumstances, this would total approximately $2 million as shown in the below table, which is over 10% of the $17 million PCA deadband.

Description	Order	Compliance
PCA Baseline Costs	$ 1,188,425,329	$ 1,188,425,329
Normalized Test Year MWh's	20,503,307	20,535,749
PCA Baseline Rate in MWh's	$ 57.963	$ 57.871
Difference		$ (0.09)
Rate Year Load in MWh's		21,485,116
Impact on PCA Imbalance for Sharing		$ (1,967,313)

190529-30-PSE-WP-SEF-23.01E-Exhibit-A-1-19GRC-01-2020.xlsx
Tab "Exhibit A-1"
Cell C 36

2. The approved PCA BLR is also used to determine a surplus or deficiency in a Power Cost Only Rate Case ("PCORC"). The surplus/deficiency is determined using similar calculations as above where the proposed PCA BLR minus the approved PCA BLR is

multiplied by the PCORC rate year load. PSE is planning to file a PCORC in the near term. PSE estimates that if the lower load ordered for the production factor is used for the 2019 general rate case PCA BLR, it would result in the surplus/deficiency in its upcoming PCORC being approximately $2 million less.

3. The Energy Charge Credit for Schedule 139 Voluntary Long Term Renewable Energy Purchase Rider is dependent on the PCA and Fixed Production Cost BLR. Therefore, if the inconsistent load is used, the Energy Charge Credit these customers receive would be artificially too high.

To be clear, as there was no dispute as to what load to use for the PCA BLR in the case, PSE used the same load in its PCA BLR in the compliance filing as was used to develop the rates, which is foundationally correct based on rate making theory as demonstrated above. The above three issues are discussed in order to demonstrate that these inconsistent outcomes are eliminated if the load is approved as filed in PSE's compliance filing, including its use in the production factor. Additionally, these issues demonstrate the importance of the interconnectedness of load throughout the filing.

Finally, the items discussed above are the only issues PSE has identified thus far that are created when loads are inconsistently applied. However, setting base rates in a general rate case is a complex inter-dependent process, and there may be other issues created that PSE has not identified.

Conclusion

For the reasons discussed above, PSE respectfully requests the Commission approve PSE's electric compliance filing including the power costs and normalized test year load utilized in its requested PCA BLR as filed in PSE's compliance filing, pursuant to WAC 480-07-880(6)(a). Although PSE's use of a consistent load for the production factor and rate spread/rate design purposes was not technically in compliance with the Commission's Clarification Order, approving a consistent load will avoid the unintended consequences set forth above. Further, approving PSE's filing in which the production factor uses the same load that was approved for rate spread/rate design purposes is consistent with decades of past practice and was not contested in the case. As stated in the Staff Response Letter, the change PSE made has merit. PSE appreciates the opportunity to explain the details behind the change it made, so the Commission can be fully informed about whether this change is in the spirit of the order even though it is not directly in compliance with the Clarification Order.

2. PSE's Report of the Colstrip 1 and 2 Regulatory Asset Balance

PSE requests a determination that it has complied with the requirement to file a report of the balance of the Colstrip 1 and 2 Regulatory Asset Balance per paragraph 35 of the Clarification Order. On page 3 of the Staff Response Letter, Commission Staff stated they have reviewed the

report and believe it is consistent with the Order. However, Commission Staff's compliance recommendations on page 5 do not include the Colstrip report. As this item is not disputed, PSE requests a determination that it has complied with the requirement in paragraph 35 of the Clarification Order.

Sincerely,

/s/ Jon Piliaris

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