DRAFT COST OF SERVICE RULES

Chapter 480-07 WAC

WAC 480-07-510(6).

(6) Cost of service studies. The initial filing must include a cost of service study that complies with Chapter 480-xxx WAC.

New Chapter

WAC 480-xxx-010 Purpose.

(1) The purpose of these rules is to establish minimum filing requirements for any cost of service study filed with the commission. These rules are designed to improve and promote efficiency in analyzing rate cases, clarity of presentation, and ease of understanding. The minimum filling requirements will allow for direct comparisons of cost of service studies.

(2) The cost of service study is one factor among many the commission considers when determining rate spread. The commission may also consider, as appropriate, such factors as fairness, perceptions of equity, economic conditions in the service territory, gradualism, and rate stability.

WAC 480-xxx-020 Applicability.

The rules in this chapter apply to any person or party who files a cost of service study in any proceeding before the commission.

WAC 480-xxx-030 Definitions.

(1) "Allocation factor" means a mathematical description of the specific cost relationship among revenue requirement and rate schedules.

(2) ~~"Basic charge" means a rate that does not vary with energy usage and is charged to each customer within a customer class during each billing cycle.~~

(3) "Cost of service study" means a study that identifies and calculates the extent to which various rate schedules cause a utility's costs using regulatory accounting principles. This study correlates a utility's costs and revenue with the service provided to customers in each rate schedule.

(4) "Load study" means a statistical analysis of interval load data collected from sampled customers to estimate the load profiles of rate schedules over a minimum 12-month period. Load profile estimates of rate schedules shall be hourly (or sub-hourly) for electric, and daily for natural gas. A load forecast model is not a load study.

(5) "Marginal cost study" means an analysis of the ~~cost for a customer to bypass a utility's system compared to the~~ incremental cost needed for the utility to serve ~~that~~one additional customer, unit of energy, or unit of demand.

(6) "Parity ratio" means a rate schedule's revenue-to-cost ratio divided by the system's revenue-to-cost ratio. This ratio shall only be presented as either a percentage or a decimal.

(7) "Revenue-to-cost ratio" means revenue at current rates divided by the revenue requirement. This ratio shall only be presented as either a percentage or a decimal.

(8) "Special contract" means a service agreement between a utility and a customer that includes a rate schedule unique to that customer.

(9) "System peak" means the maximum energy usage of the Washington portion of a utility's distribution system within an identified time frame.

~~**WAC 480-xxx-040 Subsequent Review of Cost of Service.**~~

~~(1) The commission shall initiate a formal rulemaking proceeding under RCW 80.04.160 to review cost of service rules in this chapter every five years. If the commission finds that initiating a formal rulemaking proceeding to review cost of service is not in the public interest, the commission may postpone the rulemaking to a specified date.~~

~~(2) The formal rulemaking process shall be completed within 12 months after initiation. The commission may, upon a finding of good cause, extend the rulemaking proceeding.~~

WAC 480-xxx-050 Minimum Filing Requirements.

(1) All cost of service study results must be filed in the form prescribed by the commission, Form [TBD]. In addition, all cost of service studies must include the following:

(a) Supporting testimony. All cost of service studies must be filed with supporting testimony. ~~If supporting testimony references or discusses data, models, calculations, or associated information is found only in the supporting work papers, the supporting testimony must cite to the work papers.~~

(b) Supporting work papers. All supporting models, calculations, data, and associated information must be provided to the parties in a manner that allows for the verification and modification of the model's inputs and assumptions. This includes:

(i) All models must be fully functional, which requires, at a minimum, that cells are linked where possible and all formulas are calculable. Wherever possible, all associated calculations necessary to support the results of the study must be consolidated in the same electronic workbook file.

(ii) Any macros in a model must be explained in a narrative. The narrative must also identify where the macro is found in the model.

(iii) ~~Each electronic workbook must have an index identifying each spreadsheet and its relationship to other spreadsheets.~~

(2) Companies that provide electric and natural gas service must file an embedded cost study for their electric and natural gas operations simultaneously.

WAC 480-xxx-060 Cost of Service Study Inputs.

(1) The rate schedule usage data for any cost of service study must come from one of the following sources, which are ranked from most to least preferred: advanced metering infrastructure; special contracts; or, a load study. For small customer classes whose usage is pattern is readily known such as streetlights who only use energy from dusk to dawn, estimation based upon overall class energy usage is acceptable.

(2) Of the sources listed above, a cost of service study must use the most preferred source of data available.

WAC 480-xxx-070 Cost of Service Methodology.

(1) A cost of service study filed with the commission must be calculated using an embedded cost method.

(a) Electric studies shall use the FERC accounts outlined in Table 1 to functionalize the cost of service. ~~Costs~~When practical, costs shall be directly functionalized where information is readily available. Functionalized costs will be classified and allocated by the methods outlined in Table 2.

(b) Natural gas studies shall use the FERC accounts outlined in Table 3 to functionalize the cost of service. Costs shall be directly functionalized where information is available. Functionalized costs will be classified and allocated by the methods outlined in Table 4.

(c) FERC accounts not included in Table 1 or Table 3 but identified in a cost of service study must be accompanied by a rationale for the functional method chosen in the supporting testimony.

(d) If an allocation method in Table 2 or Table 4 requires direct assignment, any remaining costs in the account may not be allocated to the classes included in the direct assignment.

(e) The abbreviations for the functionalized costs are:

"Gn" is an abbreviation meaning the generation function;
"Tr" is an abbreviation meaning the transmission function;
"Dist" is an abbreviation meaning the distribution function;
"Cust" is an abbreviation meaning the customer function; and,
"Comm" is an abbreviation meaning the common function.

(2) In addition to filing a cost of service study as required in subsection (1), a party may file a cost of service study based on a system-wide econometric study or a system-wide marginal cost study.

Table 1 – Electric Cost of Service Approved Functionalization Methodologies

Functionalization	FERC Account Numbers
Generation	151, 253, 310 – 317, 330 – 337, 340 – 348, 500 – 515, 535 – 545.1. 546 – 557
Transmission	350 – 359.1, 560 – 573
Distribution	252, 360 – 374, 580 – 598
Customer	235, 901 – 905, 907 – 910
Common	920 – 935, working capital allowance
Gn/Tr/Dist/Cust/Comm	301 – 303, 403, 403.1, 404 – 407
Gn/Tr/Dist/General	105, 107, 108, 111
Gn/Tr/Dist/Comm	154, 165, 281, 282
Allocate based on sub-account	182.3, 254

Table 2 – Electric Cost of Service Approved Classification and Allocation Methodologies

Functionalized Cost	Classification Method	Allocation Method
Generation	Scenarios	Scenarios
Transmission	Scenarios	Scenarios
Distribution Substation	TBD based on the results from the scenarios	~~Direct assignment to large customer classes~~Allocated based on ~~load ratio share of substations they are fed from.~~ ~~All other classes use an average of the relative share of the summer~~twelve weighted distribution system coincident peaks, where each peak ~~and~~is weighted by the ~~relative share~~nameplate of ~~the winter coincident~~substations that peak each month.
Distribution Line Transformers	TBD based on the results from the scenarios	Secondary customers directly assigned where possible. All remaining costs are allocated using a relative ratio of transformers at current installation costs.
Distribution Poles and Wires	TBD based on the results from the scenarios	Primary system customers are allocated using the same method as distribution substation. Secondary system customers are allocated using the same method as distribution line transformers.
Service Lines	Customer	Average installed cost for new service lines multiplied by customer count relative to average installed cost.
Meters	Customer	Average installed cost for new metering multiplied by customer count.
Customer Service/Billing	Customer	All costs assigned by weighted customer counts.
Administrative & General and General Plant	Customer	Property insurance based on allocated plant; pensions and employee insurance based on salary and wages; FERC fees based on energy; revenue-based fees allocated by class relative share of total revenue.
Intangible Plant	Depends on functionalization of account	Each type of intangible and amortization in a separate account, allocated using appropriate factors. A materiality threshold of 0.5% of intangible plant or $750,000 will be applied.

Table 3 – Natural Gas Cost of Service Approved Functionalization Methodologies

Functionalization	FERC Account Numbers
	Staff is continuing to finalize the gas functionalization table.

Table 4 – Natural Gas Cost of Service Approved Classification and Allocation Methodologies

Functionalized Cost	Classification Method	Allocation Method
Distribution Mains	Scenarios	Scenarios
Transportation Main	Scenarios	Scenarios
Distribution Assets	TBD based on the results from the scenarios	Measuring and regulating station equipment is allocated the same as distribution mains [TBD on methodology] except large industrial customers are allocated all average related costs, unlike the distribution main allocator which excludes small pipe.
Services	Customer	Allocated to rate schedule based on the class average service installation cost. Large customers are directly assigned based on a special study; for only this allocator, it is up to the utility to determine "large customer."
Meters	Customer	Average installed cost for new metering multiplied by customer count.
Customer Service/Billing	Customer	All costs assigned by weighted customer counts.
Administrative & General and General Plant	Customer	Property insurance based on allocated plant; pensions and employee insurance based on salary and wages; FERC fees based on energy; revenue-based fees allocated by class relative share of total revenue.
Intangible Plant	Depends on functionalization of account	Each type of intangible and amortization in a separate account, allocated using appropriate factors. A materiality threshold of 0.5% of intangible plant or $750,000 will be applied.

WAC 480-xxx-080 Exemptions.

(1) The commission may grant an exemption from the provisions of any rule or section in this chapter. ~~Any exemption from this chapter may only be applied to rate proceedings initiated subsequent to the approval of the exemption.~~

(2) In order to meet the public interest standard under WAC 480-07-110(2)(c) for an exemption from this chapter, the evidence provided must be sufficient to demonstrate:

(a) The proposed alternative significantly improves the accuracy of the cost of service study in comparison with a cost of service study complying with this chapter, including:

(i) A detailed explanation of how the proposed alternative significantly improves the accuracy of the cost of service study; and,

(ii) A description of the conditions under which the proposed alternative should be applied, and how the conditions are currently met.

(b) The proposed alternative represents improvements so significant and compelling that the commission should give serious consideration to incorporating the proposed alternative into this chapter during the next rulemaking proceeding pursuant to WAC 480-xxx-040.

(3) Under WAC 480-07-500(4), the commission will reject or require revision to any filing presenting a cost of service study that does not fully comply with this chapter unless a commission order has granted an exemption from this chapter.

(4) Nothing in these rules limits the commission from granting exemptions in emergency situations under WAC 480-07-110(4).