

**DRAFT COST OF SERVICE RULES - WITH PSE COMMENTS ADDED**

**Chapter 480-07 WAC**

**WAC 480-07-510(6).**

(6) Cost of service studies. The ~~company's~~ initial filing must: ~~(a) include any cost of service studies that complies with Chapter 480-xxx WAC, the company performed or relied on to prepare its proposals;~~ (b) identify all cost studies conducted in the last five years for any of the company's services; and (c) describe the methodology the company used in all such cost studies. ~~If the cost studies are in the form of a model, the company must provide a copy of, or reasonable access to, the model that will enable the commission to verify and modify the model's inputs and assumptions.~~

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## 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 [streamline](#), improve, and promote efficiency in analyzing rate cases, clarity of presentation, and ease of understanding. The minimum filing requirements will allow for ~~direct~~ comparisons of cost of service studies.

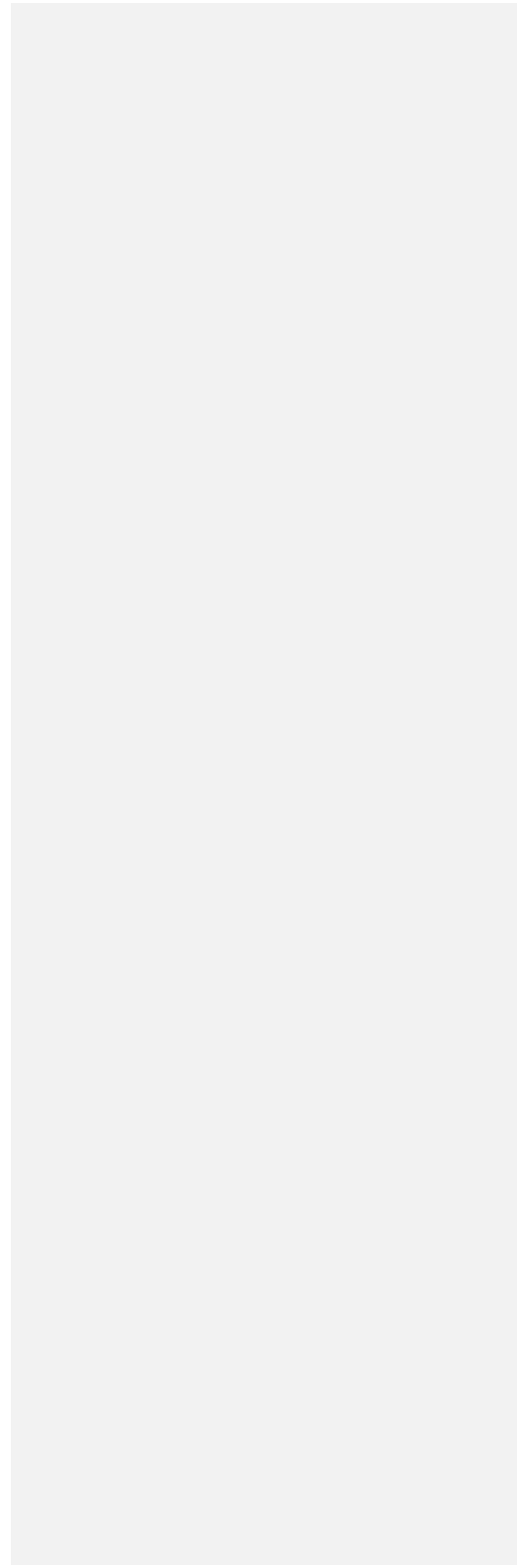
(2) The cost of service study is one factor among many the commission considers when determining rate spread. The commission may also consider, as appropriate, such factors as fairness, perceptions of equity, economic conditions in the service territory, gradualism, and rate stability.

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**WAC 480-xxx-020 Applicability.**

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

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**WAC 480-xxx-030 Definitions.**

(1) "Allocation factor" means a mathematical expression 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)(2)~~ "Cost of service study" means a study that identifies and calculates estimates, using regulatory accounting principles, the extent to which customers on various rate schedules cause a utility's costs costs to a utility using regulatory accounting principles. This study correlates a utility's costs and revenues with the service provided to customers in each rate schedule class.

~~(4)(3)~~ "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 or load projection model is not a substitute for a load study. Load studies should be conducted at a minimum every five years.

~~(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 customer.~~

~~(6)(4)~~ "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 to the commission as either a percentage or a decimal.

~~(7)(5)~~ "Revenue-to-cost ratio" means revenue at current rates divided by the revenue requirement. This ratio shall only be presented to the commission as either a percentage or a decimal.

~~(8)(6)~~ "Special contract" means a negotiated service agreement between a utility and a customer approved pursuant to WAC 480-80-143 that includes a rate schedule unique to that customer.

~~(9)(7)~~ "System peak" means the maximum load energy usage of the Washington portion of a utility's distribution system within an identified time frame.

**Commented [ 1]: Main Concerns:**

- Definitions need to be more precise/explicit; currently many are vague, ambiguous

**Commented [ 2]:** The term "calculates" presumes that the results will be known and unambiguous, whereas it is widely understood that these can at best be estimated, but will often continue to be subject to dispute.

**Commented [ 3]:** It is unclear what regulatory accounting principles are being referenced here. Would it be better to instead refer to "cost causation principles"?

**Commented [ 4]:** This could be interpreted as requiring that the costs and revenues be determined independently for each rate schedule within a cost of service study. However, it is often the case that more than one rate schedule is included in a "rate class", which includes like schedules for purposes of cost allocation

**Commented [ 5]:** How is this impacted by the preference of AMI/AMR data use? See comment in Cost of Service Study Inputs. Load study is not typically conducted for Gas service companies.

**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.~~

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**WAC 480-xxx-0450 Minimum Filing Requirements.**

(1) All cost of service study results must be filed in the ~~form prescribed by the commission following forms, available from the commission: Form [TBD], electric cost of service template; and, gas cost of service template.~~ In addition, the following must be provided contemporaneously with all cost of service studies ~~must include the following:~~

(a) Supporting testimony. All cost of service studies must be filed with supporting testimony and exhibits. If supporting testimony or exhibits references, ~~or~~ discusses, or specifically rely on data, models, calculations, or associated information ~~is~~ found only in the supporting work papers, the supporting testimony or exhibit 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 all 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 ~~each~~ 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 of service study for their electric and natural gas operations ~~simultaneously.~~ If a company providing electric and natural gas service files a general rate case for only one of its services, the company must apportion the common costs shared by both services in lieu of filing a cost of service study for the service not included in the general rate case.

**Commented [ 6]: Main Concerns:**

- New filing requirements are overly burdensome and likely not practical.

**Commented [ 7]:** Are these new templates exhibits, workpapers, supporting documents?

**Commented [ 8]:** It would be helpful to better understand the intent of this portion of rules. Workpapers are already being provided to support testimony and exhibits. PSE would like to better understand the importance of having the testimony and exhibits refer back to the workpaper. Testimony and exhibits do not typically cite to work papers, which are not part of the evidentiary record.

**Commented [ 9]:** This may be difficult, depending on what the Commission determines to constitute "the model". Currently, utilities are required to include and link all workpapers in their filing. Taken to its extreme, all of the files together would constitute "the model." In PSE's case, this could total 100 independent spreadsheets. Under this situation, it is unclear whether Microsoft Excel could even accommodate the volume of resulting data and calculations. Of course, with a far more limited view of "the model," the proposed language may not be problematic. Perhaps, ringfencing this to only the cost of service study (e.g., exclusive of revenue requirement and rate design spreadsheets) may help.

Are linked workpapers required to be cited in the exhibit and testimony?

**Commented [ 10]:** It is unclear the extent to which this is necessary and helpful. For example, under this rule utilities would be required to include in their testimony a discussion of the development and location of print macros in their files. Are disabled macros required to be part of the narrative?

**Commented [ 11]:** See the comment about limiting the interpretation of "the model."

**Commented [ 12]:** This sentence appears to require a utility to jointly file for electric and gas rates. This is not currently required in Commission rules. Additionally, the sentence contradicts with the following sentence. It is recommended "simultaneously" be removed.

**Commented [ 13]:** Common costs are always apportioned in the revenue requirement process not in the cost of service model. Revenue requirement workpapers already provide this information.

WAC 480-xxx-0560 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~~ the best available source: advanced metering infrastructure; ~~(AMI), special contracts; advanced meter reading (AMR),~~ or, a load study.

(a) For utilities with AMI, the use of data from a load study must be explicitly justified.

(b) For utilities with AMR, data from AMR may be used if granularity of the data is hourly or sub-hourly for electric, or daily for natural gas. For utilities with AMR with the data granularity required by this subsection, the use of data from a load study must be explicitly justified.

(c) For utilities that do not have AMI or AMR with the data granularity required by subsection (1)(b), a load study must be used. Data from special contracts may be used in a load study.

~~(a)~~(d) Street lighting schedules may be estimated and, if so, the estimation method must be explicitly presented in testimony and exhibits.

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

Commented [ 14]: Main Concerns:

- COS inputs vary between Electric and Gas service companies. Need to be more explicit between electric and gas requirements.

Commented [ 15]: PSE is confused on the preference between AMI, AMR and load study. It is understood that AMI and AMR are metering technology/infrastructure that allow for collection of data to support a load study. Is the intent here not to use a sample set and utilize the full population data for statistical analysis? Even so, a load study would be required on the full population data set.

Taken literally, this language appears to favor (by rule) the use of actual peak information over, for example, the use of design day peak data that would necessarily rely on some sort of load study. If this is the intent, or even unintended outcome, of this language, PSE would not support this language in its current form.

**WAC 480-xxx-0670 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 of subsection (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 2 of subsection (3).

(b) Natural gas studies shall use the FERC accounts outlined in Table 3 of subsection (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 of subsection (3).

(c) FERC accounts not included in Table 1 or Table 3 of subsection (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 of subsection (3) requires direct assignment, any similar remaining costs in the account may not be allocated to the classes included in the direct assignment; except in circumstances where that class derives a direct benefit from the non-direct assigned costs. If a particular account contains several cost items, of which only certain items in the FERC account are directly-assigned, the cost items that are not directly-assigned will be allocated as appropriate.

(e) The abbreviations for the functionalized costs are:

“Gn” is an abbreviation meaning the generation function;

“Pr” is an abbreviation meaning the production 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.

(3) Tables 1 – 4 of this subsection outline the functionalization, classification, and allocation methods required by subsection (1).

**Commented [ 16]:** Main Concern;

- There continues to be confusion on the application of the prescribed methodology and whether they will provide the most accurate result.

**Commented [ 17]:** While this is common practice currently, particularly with the ongoing discussion about alternative forms of regulation, it may restrict the Commission here with the use of only traditional approaches to cost allocation.

**Commented [ 18]:** PSE is unclear on what value the functionalization requirements provide, particularly in light of the inconsistency in the functional categories presented in Tables 1 and 2, and Tables 3 and 4.

**Commented [ 19]:** PSE is unclear on what value this rule provides, as the classification and allocation of the costs are what ultimately matter to the end result.

**Commented [ 20]:** If Staff has something specific in mind, perhaps it would be useful to add this as a defined term within the rules.

**Commented [ 21]:** It is unclear what this term refers to.



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, <u>908* 909</u> – 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

**Commented [ 22]:** PSE is unclear on how these are considered collective functionalizations?

[\\*Expenses included in account 908 that are related to conservation must be functionalized as power related.](#)

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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 based on load ratio share of substations they are fed from. All other classes use an average of the relative share of the summer coincident peak and the relative share of the winter coincident peak.
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 relative to total installed cost.
Customer Service/Billing	Customer	All costs assigned by weighted customer counts.
Administrative & General and General Plant	Depends on functionalization of account	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.  <u>The remainder of administrative &amp; general and general plant costs shall be allocated as deemed appropriate. An explanation of the allocation method used must be included in testimony.</u>
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 the lower of 0.5% of intangible plant or \$750,000 will be applied.

**Commented [ 23]:** PSE is unclear on how these functional categories tie to the functional categories in Table 1.

**Commented [ 24]:** PSE is unclear on what is meant by Scenarios.

**Commented [ 25]:** This methodology would produce a less precise allocation for PSE.

**Commented [ 26]:** Should this be 'Total'?

**Commented [ 27]:** In some specific cases, it may be appropriate that there be no weighting.

**Commented [ 28]:** Additional clarity on this term is required.

**Commented [ 29]:** How was this determined?

Table 3 – Natural Gas Cost of Service Approved Functionalization Methodologies

Functionalization	FERC Account Numbers
Production	710, 711-736, 740-742, 800-813, 804.1, 805.1, 808.1, 808.2, 809.1, 809.2,
Storage	350-356, 352.1, 352.2, 352.3, 814-826, 830-837, 840-843, 842.1-842.3, 843.1-843.9,
Transmission	365.1, 365.2, 366-371, 850-867, 870,
Distribution	374-387, 871-881, 885-894
Customer	901-905, 907, <u>908*</u> , <u>909</u> -910
General	389-399, 920-929, 930.1, 930.2, 931
Pr/Tr/Dist/General/Common	101.1, 104-108, 111, 114, 115, 117.1-117.4, 165, 182.3, 186, 190, 228.1-228.4, 229, 235, 252, 253, 255, 281-283, 301-303, 403, 403.1, 404-407, 407.1-407.4, 408.1, 409.1, 410.0-411.1, 411.4, 411.6-411.9, 412-414, 421
Common	Working capital
Allocate based on sub-account	182.3, 254

[\\*Expenses included in account 908 that are related to conservation must be functionalized as power related.](#)

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 <u>relative to total installed costs.</u>
Customer Service/Billing	Customer	All costs assigned by <u>weighted customer counts.</u>
Administrative & General and General Plant	Depends on functionalization of account	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.  <u>The remainder of administrative &amp; general and general plant costs shall be allocated as deemed appropriate. An explanation of the allocation method used must be included in testimony.</u>
Intangible Plant	Depends on functionalization of account	Each type of intangible and amortization in a separate account, allocated using <u>appropriate factors.</u> A materiality threshold of <u>the lower of 0.5%</u> of intangible plant or <u>\$750,000</u> will be applied.

**Commented [ 30]:** This is unclear.

**Commented [ 31]:** In some specific cases, it may be appropriate that there be no weighting.

**Commented [ 32]:** Additional clarity on this term is required.

**Commented [ 33]:** How was this determined.

**WAC 480-xxx-0780 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)(1) In order to meet the public interest standard under addition to the requirements of WAC 480-07-110(2)(c), any petition for for an exemption from this chapter must provide, 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 proposal proposed alternative significantly improves the accuracy of the cost of service study; and,

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

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

~~(3)(2) Under WAC 480-07-500(4), the commission will reject or require revision to of 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).~~

**Commented [ 34]:** Main Concern:

- Requirement and process to obtain exemption is unclear
- There is considerable ambiguity in terminology used in this section. Parties are likely to conflict on meaning and limits/threshold

**Commented [ 35]:** The term 'sufficient' needs to be clarified if used.

**Commented [ 36]:** The term "significantly" needs to be clarified if used.

**Commented [ 37]:** Is accuracy the only metric of importance? Or could there be other reasons to depart from the standard rules? Accuracy may be subjective based on varying perspectives.

**Commented [ 38]:** The term "significantly" needs to be clarified if used.

**Commented [ 39]:** The terms 'significant' and 'compelling' need to be clarified if used.

**Commented [ 40]:** As noted above, PSE uses certain allocation approaches that are more granular than those being proposed above. That said, it is very likely the case that other utilities may not have ready access to the same level of data. It is also unclear the value of attempting to bind other utilities to an approach that may not be well suited to their situation.

The term "significant" and "compelling" need to be clarified if used.

Is the intent to only allow the Commission to approve exemptions if they can be codified in the rules for all other utilities? Not clear why the Commission would want to limit the broad discretion it otherwise has to grant exemptions from its rules. It is recommended "incorporating" and "into this chapter" be removed.

**Commented [ 41]:** PSE is unclear on the sequence to obtain exemption. How would exemption be granted? Would utilities be required to file a motion for exemption prior to filing the COS study, or do utilities submit COS study and request exemption at the time of filing? In a rapidly changing industry environment, where alternative methodologies may prove useful, this rule would have the unintended effect of encouraging only traditional methods and discouraging the use of alternative ratemaking methodologies.