



STATE OF WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

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July 23, 2018

**NOTICE OF OPPORTUNITY TO FILE WRITTEN COMMENTS
(By August 31, 2018)**

Re: Rulemaking to address electric and natural gas cost of service,
Dockets UE-170002 and UG-170003

TO ALL INTERESTED PERSONS:

On July 19, 2018, the Washington Utilities and Transportation Commission (Commission) filed with the Code Reviser a Preproposal Statement of Inquiry (CR-101) to address cost of service studies for investor owned utilities in the State of Washington. The Commission filed the CR-101 under Dockets UE-170002 and UG-170003.

The purpose of cost of service studies is to identify the costs of providing service to each customer class, such as residential and commercial, recognizing that different rate classes have distinct load and service characteristics. A cost of service study informs a balanced allocation of electric and natural gas revenue requirements amongst customers. These studies also aid the Commission in designing rates by providing support for differentials between different rate components.

WAC 480-07-510(6) currently requires electric, natural gas, pipeline and telecommunications companies to file with the Commission cost studies in general rate proceedings. The current rules have limited information on when a study is required, the prior studies that must be identified, and the description that must be provided.

The purpose of this rulemaking is to identify the extent to which rules should define cost of service studies' attributes. Further, the Commission is interested in addressing several policy matters regarding the methods and practices implemented to calculate and present cost of service studies in general rate proceedings. Responses to the following questions would be useful to the Commission in conducting its inquiry:

Questions affecting both electric and natural gas companies:

1. To what degree should rules define the presentation (such as per class revenue and costs, parity ratios, revenue changes, billing determinants, etc.) of cost of service studies?
 - a. Are standardized presentation formats or templates an adequate way to enable comparisons of cost of service studies?
 - b. To what degree should templates be relied upon for summary presentations versus underlying modeling and work papers?
 - c. How should a party sponsoring a cost of service study present the interface between a revenue requirement study and a cost of service study?
 - d. Should parties present a list of all allocation factors, including how they are calculated, how the calculation method has changed from its inception, and where they are used?
2. Should the Commission adopt rules requiring parties to conduct and present a load study when performing cost of service studies? Please explain why or why not.
 - a. If the Commission were to require a load study in rule, what is an appropriate definition of a load study? Which parameters are necessary to include in a load study?
 - b. If a rule requires load studies, what level of specificity, in terms of measuring customer's loads, should the Commission require to be presented in load studies?
 - c. How frequently should companies perform load studies?
 - d. How might emerging technologies, such as Advanced Metering Infrastructure (AMI), affect the timing and frequency of load studies? Please also explain whether and how selective deployment of AMI could minimize load study costs to ratepayers.
3. Should the Commission allow parties to include confidential information in a cost of service study?
 - a. If so, should confidential information be labeled in the same way as all other information identified as confidential under WAC 480-07-160?
 - b. What circumstances would require a party to provide a confidential version of a cost of service study?
4. Should the Commission adopt rules that require parties to include in cost of service studies the reconciliation between test year billing determinants and billing determinants used in the cost of service model?
 - a. Similarly, should the Commission require cost of service studies to include a reconciliation for unadjusted and pro forma revenues and the resulting cost of service models?
5. Should the Commission include in a rule on cost of service studies definitions of specific terms used in cost of service studies? Please include specific technical terms that should be defined.

6. There are several overall methods upon which cost of service studies rely, e.g., marginal, total service, long run, incremental or embedded cost studies. Should the Commission rely principally upon a single method?
 - a. If so, what parameters should the method include? Is it necessary for the Commission or parties sponsoring a study to conduct periodic revisions of the method? What would prompt such a revision?
7. How should special contract customers be treated with regard to pass-through costs (*i.e.*, separate riders identifying and recovering specific types of costs)?
8. The Commission is considering rules that require a baseline cost of service study for each Company. One option for such a process would require a company to submit an initial baseline cost of service study for the Commission to review and approve. This would happen in the next general rate case each company files after the Commission adopts rules requiring such a baseline. The Commission would consider this baseline the standard approach for that company to allocate costs, inclusive of future updates with Commission approval. Thereafter, a company would be required to present adjustments to the cost of service method in comparison to the latest Commission-approved baseline.
 - a. Is this a sound approach for providing consistency for the review of cost of service studies and their underlying methods?
 - b. What specific topics or aspects of a cost of service study should or should not be included as a part of a baseline study?
 - c. Should there be a defined timeframe for the effective period of a baseline cost of service study before formal re-evaluation of the baseline would be required?
 - i. Should the timeframe for re-evaluation be the same for all companies?
 - ii. Should baseline studies be established or reviewed outside of a general rate proceeding?
 - iii. Should the Commission consider re-evaluation simultaneously for all companies?
 - d. Which metrics should be considered as the trigger for a formal re-evaluation of a baseline cost of service study?
9. What other topics should the Commission consider in adopting rules governing cost of service studies?

Questions affecting electric utility service only:

1. Should the Commission require marginal cost studies for special contract customers that rely upon a utility for electric generation, transmission, distribution, or a sub-set of these components?
2. How should cost of service studies allocate demand and energy costs?
 - a. Is a single method or a set of methods the most balanced and fair to all parties involved?

- b. Should the Commission establish a preference for a particular method? Please explain your response.
 - c. Are there specific methods that should not be considered by the Commission? For what reason should the Commission not consider specific methods?
3. How should cost of service studies classify and allocate:
 - a. Transmission and distribution assets?
 - b. Fuel costs and purchased power?
 - c. Common and joint costs?
 - d. Administrative and general costs?
 - e. Poles, conductors, and line transformers?
4. Are there any other costs that cost of service studies should classify and allocate in a specific way?

Questions affecting natural gas service only:

1. Should the Commission adopt rules requiring marginal cost of service studies for special contract customers that rely upon a utility for natural interstate pipeline connections, localized distribution, or a sub-set of these components?
 - a. To what extent should these contracts be subject to scrutiny regarding the impact on other customers of the cost assignment to special contracts?
2. How should cost of service studies allocate demand and throughput?
 - a. Is a single method or a set of methods the most balanced and fair to all parties involved?
 - b. Should the Commission establish a preference for a particular method?
 - c. Are there specific methods that should not be considered by the Commission? For what reason should the Commission not consider specific methods?
3. How should a cost of service study address the allocation of mains?
 - a. What is the appropriate balance of demand with throughput?
 - b. Is it appropriate for the Commission to establish or allow different companies to use different methods?
 - c. Should the Commission allow a cost of service study to exempt specific customer classes from an identified methodology?
4. How should cost of service studies classify and allocate:
 - a. Common and joint costs?
 - b. Administrative and general costs?
5. Are there any other costs that cost of service studies should classify and allocate in a specific way?

The CR-101, as filed with the Code Reviser, is available for inspection on the Commission's website at <http://www.utc.wa.gov/170002and170003>. If you are unable to access the

Commission's web page and would like an electronic copy of the CR-101 emailed to you, please contact the Records Center at (360) 664-1234.

WRITTEN COMMENTS

Written comments in response to the Notice and the questions listed above must be filed with the Commission no later than **5 p.m., Friday, August 31, 2018**. Pursuant to WAC 480-07-250(3), written comments must be submitted in electronic form, specifically in searchable .pdf format (Adobe Acrobat or comparable software). As provided in WAC 480-07-140(5), those comments must be submitted via the Commission's web portal at www.utc.wa.gov/e-filing. If you are unable to submit documents via the portal, you may submit your comments by email to the Commission's Records Center at records@utc.wa.gov or by mailing or delivering an electronic copy to the Commission's Records Center on a flash drive, DVD, or compact disc that includes the filed document(s). Comment submissions should include:

- The docket number of this proceeding (UE-170002 and UG-170003).
- The commenting party's name.
- The title and date of the comment or comments.

The Commission will post all written comments on its website at the following URL address: <http://www.utc.wa.gov/170002and170003>.

If you have questions regarding this rulemaking, you may contact Staff, Elizabeth O'Connell, at (360) 664-1306 or by email at elizabeth.oconnell@utc.wa.gov.

Stakeholders will have further opportunity for comment. Information about the schedule and other aspects of the rulemaking, including comments, will be posted on the Commission's website as it becomes available. If you wish to receive further information on this rulemaking you may:

- Call the Commission's Records Center at (360) 664-1234
- Email the Commission at records@utc.wa.gov
- Mail the Commission at the address below

When contacting the Commission, please refer to Dockets UE-170002 and UE-170003 to ensure that you are placed on the appropriate service list. The Commission's mailing address is:

Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S.W.
P.O. Box 47250
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NOTICE

If you do not want to comment now, but do want to receive future information about this rulemaking, please notify the Executive Director and Secretary in one of the ways described above and ask to be included on the mailing list for Dockets UE-170002 and UG-170003. If you do not do this, you might not receive further information about this rulemaking.

MARK L. JOHNSON
Executive Director and Secretary