From: Ball, Jason (UTC)
To: UTC DL Records Center
Subject: FW: COS Matrix
Date: Tuesday, April 24, 2018 9:18:57 AM
Attachments: cjibakghglkhbegp.png
ajemonmdfkebmfgp.png
List of WUTC COS Issues.xlsx

Records,

Please post the e-mail below and the attachment to Docket UE-170002 under the label "Comments, on behalf of Jim Lazar"

Thank you,

Jason Ball

From: Jim Lazar [mailto:jlazar@raponline.org]
Sent: Sunday, March 25, 2018 10:13 PM
To: Ball, Jason (UTC) <jason.ball@utc.wa.gov>
Subject: COS Matrix

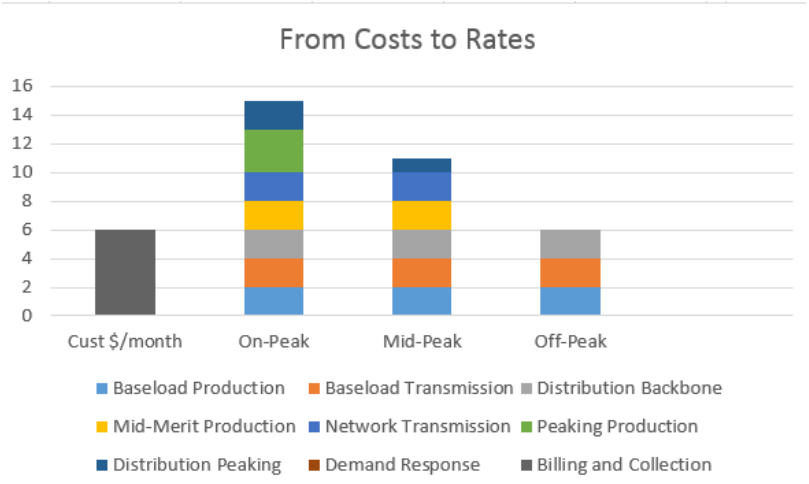
I've added a "comment" column in your COS matrix, and entered some suggestions. I hope you find some of the comments useful.

At the foundation of these is the notion that "demand/energy" classification is an obsolete concept. As we gain better load data, we can assign all costs to the hours for which those costs are incurred.

This is particular relevant as wind and solar are added, as they bring in "fixed costs" but may provide little or no "firm capacity." By assigning plant costs and operating costs to all hours when all units deliver power, and a similar approach for the distribution backbone and distribution capacity augmentation to meet peak loads, we can equitably allocate all costs to the hours when resources are providing service.

This is particularly useful for shared capacity, including generation, transmission, and distribution components that serve multiple customers. Each class, and each customer (ultimately) can bear responsibility for all resources needed to provide service at each hour of the year.

The graphic below shows this concept.



I've also recommended that study results be consistently presented on a "revenue to revenue requirement" basis, rather than the "return index" that some utilities have presented in the past. The reason for this is that it is increasingly recognized that some elements of rate base (i.e., generation) are riskier than others (i.e., distribution), and should have separate costs of capital assigned. Similarly, some classes are riskier than others (mostly due to business cycle issues), and should have separate costs of capital assigned. A Revenue:Cost ratio approach presents all of this on a comparable basis to judge whether revenue allocations should deviate. In the past, the Commission has ruled that a "range of reasonableness" should be used. Something like 90% to 110% Revenue:Cost ratio is "close enough" and no disproportionate revenue allocation should be applied.

Here's an example of a case (U-84-65) where the Commission considered multiple studies using multiple methods in reaching a conclusions:

Pacific Power & Light Company
Cost of Service Comparison
12 Months Ending March 31, 1984

Line	Description (1)	Revenue to Cost Ratio (2)
1	Residential	
	PP&L	0.91
	Schoenbeck	0.91
	Powers (Alt. 1-3)	0.93
	Powers (Alt. 1-4)	0.97
2	General Service	
	PP&L	1.13
	Schoenbeck	1.12
	Powers (Alt. 1-3)	1.15
	Powers (Alt. 1-4)	1.13
3	Large General Service	
	PP&L	1.10
	Schoenbeck	1.10
	Powers (Alt. 1-3)	1.05
	Powers (Alt. 1-4)	1.03
4	Large General Service - Sec. & Pri.	
	PP&L	1.08
	Schoenbeck	1.10
	Powers (Alt. 1-3)	1.04
	Powers (Alt. 1-4)	0.99
5	Subtotal All General Service	
	PP&L	1.10
	Schoenbeck	1.11
	Powers (Alt. 1-3)	1.07
	Powers (Alt. 1-4)	1.04

--
Jim Lazar Senior Advisor
Regulatory Assistance Project
1907 Lakehurst Dr. SE
Olympia, WA 98501
360-786-1822

Author:
Electricity Regulation in the US: A Guide http://www.raponline.org/wp-content/uploads/2016/07/rap-lazar-electricity-regulation-US-june-2016.pdf
Teaching the Duck to Fly http://www.raponline.org/document/download/id/7956

"We cannot solve our problems with the same thinking we used when we created them." Albert Einstein