August 31, 2018

SENT VIA UTC WEB PORTAL

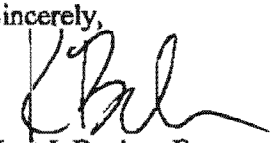
Mark L. Johnson
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. SW
P. O. Box 47250
Olympia, Washington 98504-7250

Re: Comments of The Kroger Co. on Electric Cost of Service Rulemaking, Docket UE-170002

Dear Mr. Johnson:

The Kroger Co. ("Kroger") hereby submits these comments in response to select questions posed by the Commission on July 23, 2018, on subjects applicable to both electric and natural gas companies, as well as those affecting electric service only. Kroger appreciates the opportunity to comment on these rulemaking issues and the appropriate allocation methods to utilize in cost of service studies.

Sincerely,



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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?**

   There are advantages to requiring a specific set of information in a standardized format through Minimum Filing Requirements to be filed by utilities as part of general rate cases, including a standard presentation of cost of service inputs and results. Where applicable, Kroger prefers this information be provided in Excel format, with intact formulas, in order to facilitate efficient review.

   a. **Are standardized presentation formats or templates an adequate way to enable comparisons of cost of service studies?**

      Standardized presentation formats can facilitate comparisons of cost of service studies.

   b. **To what degree should templates be relied upon for summary presentations versus underlying modeling and work papers?**

      Kroger does not believe is it necessary to mandate that all parties use uniform cost of service models and workpapers, so long as those models and workpapers are transparent and made available to the parties to proceedings, preferably in Excel format. Kroger discourages the reliance by utilities on proprietary cost of service software for rate case purposes, as this impedes other parties' abilities to review the model mechanics and run alternate scenarios. To the extent that a standard template is required for summary presentations by non-utility parties to proceedings, such a template should allow for the concise presentation of parties' positions, rather than requiring a comprehensive, voluminous filing of components unaffected by the parties' positions.

   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?**

      One option is for revenue requirement and cost of service models to be linked formulaically, so that updates to the revenue requirement model will flow through to the cost of service model. Alternatively, the revenue requirement model could produce results in a summary format by FERC account that allows for efficient export via copy-paste into the cost of service model.

   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?**

      Kroger believes that it is appropriate for utilities in general rate case filings to provide a list of allocation factors, the derivation of those factors, and a cost of service model that allows the user to determine how the allocation factors are applied. Kroger does not believe it is necessary to present how the calculation method has changed from its inception.

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.**

   Kroger does not take a position on load studies at this time.

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?

See response to Question 2 in this section.

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?

See response to Question 2 in this section.

c. How frequently should companies perform load studies?

See response to Question 2 in this section.

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.

See response to Question 2 in this section.

3. Should the Commission allow parties to include confidential information in a cost of service study?

Inclusion of confidential information in a cost of service study should be minimized so as to allow for transparency and expedient review. There may be instances when certain information must be confidential (e.g. to protect the privacy of a customer who would otherwise be identifiable). In such cases, the utility should attempt to provide a fully-functional, redacted version of the model.

a. If so, should confidential information be labeled in the same way as all other information identified as confidential under WAC 480-07-160?

Kroger does not take a position on the labeling of confidential information at this time.

b. What circumstances would require a party to provide a confidential version of a cost of service study?

A confidential version of the study may be required, for example, if the privacy of a customer would otherwise be compromised.

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?

Billing determinants used to set rates and inputs used to develop allocation factors should be based on a consistent data set. For example, if the utility has made adjustments to its actual billing units for weather normalization or customer annualization, these adjustments should be consistently applied to both billing determinants and allocation factor inputs, and the utility should provide a workpaper demonstrating consistency between these units. However, there are allocation factor inputs (for example, coincident peak demands) that do not have a direct billing determinant corollary.

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?

Kroger believes it is useful for utilities to itemize and quantify each of the adjustments made to actual revenues to develop proforma revenues at current rates.

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.

Kroger does not take a position regarding a rule on definitions of specific terms or which terms should be defined at this time.

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?

Since a utility's non-fuel revenue requirement is primarily driven by its historical investments, embedded costs are typically more representative of the actual revenue requirement than marginal costs. This nexus makes embedded cost of service studies generally more straightforward and easier to follow than marginal cost of service studies. Further, marginal costs may be below or above actual costs, and may not reflect the cost drivers of past investments that form the bulk of the utility's revenue requirement that is being allocated. For these reasons, Kroger believes that embedded cost of service studies more equitably reflect class cost responsibility than marginal cost of service studies and recommends that the Commission rely principally on embedded cost of service studies for cost allocation purposes.

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?

A cost of service study should accurately attribute costs to categories of customers based on how those costs are incurred. Periodic revisions to the method may be appropriate based on changes to the utility's costs, data availability, or in order to better reflect cost causation.

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)?

Kroger does not take a position regarding special contract customers at this time.

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?

Kroger does not object to a baseline cost of study for each utility being approved for informational purposes, recognizing that rate spread (or revenue allocation) may differ from the results of the cost of service study. Parties should be free to present alternatives to that baseline study in future rate cases, and the determination by the Commission of the appropriate method(s) should not be prejudged in favor of the baseline study.

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?

Kroger does not take a position regarding which specific topics or aspects of a cost of service study should or should not be included in a baseline study at this time.

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?

To the extent a baseline study requirement is implemented, general rate cases would provide an appropriate forum for formal reevaluation. So long as base rates remain unchanged, no particular effective timeframe is necessary.

i. Should the timeframe for re-evaluation be the same for all companies?

Please see response to Question 8(c) in this section.

ii. Should baseline studies be established or reviewed outside of a general rate proceeding?

Kroger does not object to the review of baseline studies on a revenue-neutral basis.

iii. Should the Commission consider re-evaluation simultaneously for all companies?

At this time, Kroger does not take a position on whether the Commission should consider simultaneous reevaluation.

d. Which metrics should be considered as the trigger for a formal re-evaluation of a baseline cost of service study?

At this time, Kroger does not take a position on which metrics should trigger a formal reevaluation.

9. What other topics should the Commission consider in adopting rules governing cost of service studies?

Kroger does not offer specific recommendations on topics outside of those addressed in these comments at this time.

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?**

   Kroger does not take a position regarding special contract customers at this time.

2. **How should cost of service studies allocate demand and energy costs?**

   Generally, energy costs are allocated based on loss-adjusted kilowatt hour sales. Depending on the nature of the demand-related costs, it may be appropriate to allocate demand-related costs based on each class's contribution to the single highest coincident peak ("CP"), 4 CPs, or 12 CPs. For demand-related distribution costs, allocation based on each class's individual peak, i.e. class non-coincident peak ("NCP"), is often appropriate.

   In general, Kroger believes that it is equitable to allocate production and transmission plant costs primarily based on demand, because these assets are constructed to meet the system's coincident peak demands. If it is determined that a portion of production and transmission plant costs should be allocated based on energy, Kroger believes that the Average and Excess method, which incorporates both demand and energy-allocated components, is a reasonable and objective approach.

   As described in the NARUC Manual, the Average and Excess method uses an average demand, or total energy allocator, to allocate that portion of the utility's generating capacity that would be needed if all customers used energy at a constant 100 percent load factor.[1] The cost of capacity above average demand is then allocated in proportion to each class's excess demand, where excess demand is measured as the *difference* between each class's individual peak demand [2] and its average demand. In this manner, the incremental plant that is required to meet loads that are above average demand is assigned to the users who create the need for the additional capacity. A variant of the Average and Excess method that uses 4CP demand, rather than NCP demand, to determine the excess demand may also be reasonably utilized.

   a. **Is a single method or a set of methods the most balanced and fair to all parties involved?**

      As explained above, Kroger generally believes that it is equitable to allocate production and transmission plant-related costs primarily based on demand. The Average and Excess method also represents a reasonable approach. For distribution poles, conductors, and transformers, it is reasonable to utilize an allocation method that recognizes that a significant portion of the investment required in these facilities is directly related to the number of customers and their geographic dispersion on the utility's system. This is explained in greater detail below.

      That said, Kroger also believes that it is unlikely that all parties will reach a consensus on which methods are the most balanced and fair, due to a divergence of views among different utilities and stakeholders. Kroger also recognizes that unique characteristics of each utility may warrant different allocation methods. Kroger does not believe that is necessary to mandate uniform cost of service methods for all Washington utilities in order to achieve equitable results.

[1] NARUC Electric Utility Cost Allocation Manual, January 1992, p. 49. This energy-allocated portion is appropriately based on the system load factor, as determined using the single highest system CP.
[2] That is, class NCP.

b. Should the Commission establish a preference for a particular method? Please explain your response.

See response to Question 2(a) in this section.

c. Are there specific methods that should not be considered by the Commission? For what reason should the Commission not consider specific methods?

The Peak and Average method suffers from an inherent analytical flaw that results in a double weighting of average demand (or energy). This method incorporates a subjective determination that includes the full value of average demand in both the "average" component and the peak component of the calculation. As a result, the method "double-weights" the average demand component and does not properly assign the cost of production. This structural bias unreasonably disadvantages higher-load factor customers, who use fixed assets relatively efficiently through relatively constant energy usage.

3. How should cost of service studies classify and allocate:

a. Transmission and distribution assets?

Transmission assets must be constructed to meet the system's coincident peak demands, so Kroger believes that classification and allocation based on demand best reflects cost causation. Both 4 CP and 12 CP methods are frequently utilized and reasonable. The Average and Excess method also represents a reasonable approach.

Distribution assets are appropriately classified as customer or demand-related. For demand-related distribution costs, allocation based on NCP is often appropriate. FERC Accounts 364 through 368 (poles, conductors, conduit, and transformers) also have a significant customer-related component. The customer-related component is appropriately allocated based on number of customers. This is described in greater detail below. Services and meters are appropriately classified as entirely customer-related.

b. Fuel costs and purchased power?

Fuel costs are typically classified as energy-related and allocated based on loss-adjusted kWh, because fuel costs vary with the amount of energy provided. Purchased power costs may have both energy and demand-related components, if a portion of the purchased power charges does not vary with the amount of energy provided.

As explained above, Kroger generally supports a production plant allocation method based primarily on demand, and most utilities outside of Washington use such a method. However, Kroger understands that Puget Sound Energy, Avista, and Pacific Power allocate a significant portion of their production plant costs based on energy, and allocate fuel and purchased power costs consistently with their production plant. Considering the overall package of production allocation methods currently used by these utilities in Washington, Kroger does not object at this time to continuing the current allocation methods for fuel and purchased power costs.

c. Common and joint costs?

If possible, common and joint costs should be separated into the various utility functions served in the incurrence of those costs. Then, functionalized costs should be classified with respect to the manner in which they are incurred (e.g., customer-related costs, demand-related costs, and energy-related costs). Finally, classified costs should be allocated to classes based on principles of cost causation.

If the nature of the joint and common costs defies functionalization or classification, they may be allocated based on overall rate base, overall revenues, or a similar composite allocator, as appropriate.

d. Administrative and general costs?

Allocation of administrative and general ("A&G") expenses should be consistent with underlying cost causation to the extent practicable. Depending on the nature of the A&G expense, it may be reasonable to allocate the expense consistently with overall operations and maintenance expenses (excluding fuel and purchased power), consistently with overall salary and wages, or consistently with total plant.

e. Poles, conductors, and line transformers?

FERC Accounts 364 through 368 (poles, conductors, conduit, and transformers) have both demand-related and customer-related components. The NARUC Manual is very clear on this subject. The Manual states: "The customer component of distribution facilities is that portion of costs which varies with the number of customers. Thus the number of poles, conductors, transformers, services, and meters are directly related to the number of customers on the utility's system."[3] Methods such as the Minimum-Size method or Minimum-Intercept method can be employed to determine the customer-related portions of Accounts 364 through 368. Once determined, the customer-related component is appropriately allocated based on the number of customers, while the demand-related component is allocated based on NCP.

Alternatively, the more granular allocation method employed by Puget Sound Energy for FERC Accounts 364 through 367 is also reasonable, based on each class's contribution to feeder peak loads and the length of the distribution circuit.

[3] NARUC Electric Utility Cost Allocation Manual, January 1992, p. 90.