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WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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June 11, 1992

Mr. Julian Ajello
California PUC
505 Van Ness Avenue
San Francisco, California 94102

Dear Mr. Ajello:

Please accept this belated response to your request for review of the February, 1991 draft of the new NARUC Electric Utility Cost Allocation Manual. Our staff recognizes that the final has now been printed. However, the inconsistent treatment of customer related costs in the manual is of concern. In three areas, three different approaches are presented. The first is an energy weighted approach, the second the so-called "minimum-system" or "zero-intercept" method, and the last is the "basic customer" method.

At page 39 of the draft, distribution plant is identified as being customer, demand, and energy-related. That is consistent with the treatment of gas distribution plant by this Commission, where it has ordered that 50% of distribution mains be treated as commodity-related. Our Commission has not made specific findings on electric distribution plant, except as set forth below.

At pages 91-100 of the draft, the minimum-system and zero intercept methods are presented. These methods do not conform to the matrix on page 39, which incorporates an energy component of distribution plant. Unfortunately, these two methods are the only methods presented. These are the two methods our Commission has explicitly rejected.

Finally, at page 148, in the section on marginal cost determination, the "basic customer" method, counting as customer related costs only meters, services, meter reading, and billing, is identified and defended.

Previous drafts included additional methods which are missing from the final version. For example, the 10/31/88 draft discussed at the fall meeting in San Francisco contained a section explicitly setting forth the basic customer method in the embedded cost section. In November of 1988, a section discussing the energy-weighted method was distributed to the Committee.

Our Commission has been extremely clear about one thing in this area: that the "minimum-distribution" and "minimum-intercept" methods are not acceptable, and that the only costs which should be considered customer-related are the costs of meters, services, meter reading and billing. Our staff believes that is the most common approach taken by Commissions around the country. For example, in Iowa, the administrative rules of the Commission set this forth explicitly, while in Arizona and Illinois, the Commissions have explicitly rejected the minimum-system or minimum-intercept methods in favor of the basic customer approach.

In gas cost of service, our Commission has explicitly found that distribution plant (including service connections) is partially demand-related and partially commodity related, consistent with the matrix on page 39. The corresponding plant on the electric side -- poles, conductors and transformers -- has not been positively resolved in any cases to date. A recently filed electric cost of service case will provide an opportunity for advocates of the demand-only allocation approach and those favoring an energy weighing approach to make their cases before the Commission.

We hope that it is possible to either correct future editions of the Manual to reflect the variety of approaches to determining customer-related costs, or to even issue a correction to this edition.

Please feel free to contact Bruce Folsom at (206) 586-1132 with any questions you may have.

Sincerely,

Paul Curl
Secretary