

## **Article 3 Cost-of-Service Study and Rate Design Information for Electric Utilities**

### Section

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### **3 AAC 48.500. Application and purpose**

(a) 3 AAC 48.500

- 3 AAC 48.560

apply to all electric utilities subject to the regulatory jurisdiction of the commission under AS 42.05.361

- 42.05.441.

(b) The purpose of 3 AAC 48.500

- 3 AAC 48.560

is to set out standard guidelines for cost-of-service methodology and pricing objectives for use by regulated electric utilities in preparation of cost-of-service studies, rate design, and related activity filings.

**History: Eff. 11/22/84, Register 92**

**Authority:** AS 42.05.141

AS 42.05.151

AS 42.05.361

AS 42.05.381

AS 42.05.391

AS 42.05.451

AS 42.05.691

AS 42.05.720

### **3 AAC 48.510. Pricing objectives**

(a) The following are the primary objectives for the pricing of electricity:

(1) the cost causer should be the cost payer;

(2) the revenue requirement or utility financial need;

(3) equity, which includes the fair-cost apportionment of revenue among customer classes;

(4) conservation; and

(5) optimal use, which includes considerations of efficiency.

(b) The commission will, in its discretion, consider other pricing objectives on a case-by-case basis.

**History: Eff. 11/22/84, Register 92**

**Authority: AS 42.05.141**

AS 42.05.151

AS 42.05.361

AS 42.05.381

AS 42.05.391

AS 42.05.691

**3 AAC 48.520. Costs as basis for rates**

The fundamental basis for establishing rates in order to meet pricing objectives is costs. The commission will, in its discretion, for appropriate reasons, consider noncost standards in establishing electricity rates.

**History: Eff. 11/22/84, Register 92**

**Authority: AS 42.05.141**

AS 42.05.151

AS 42.05.361

AS 42.05.381

AS 42.05.391

**3 AAC 48.530. Cost measures**

Accounting costs, embedded or fully distributed, are the primary basis for designing electricity rates. The commission will, in its discretion, upon an appropriate evidentiary basis, consider marginal or incremental costs in designing electricity rates.

**History: Eff. 11/22/84, Register 92**

**Authority: AS 42.05.141**

AS 42.05.151

AS 42.05.361

AS 42.05.381

AS 42.05.391

**3 AAC 48.540. Cost-of-service methods**

(a) Each electric utility that sells 100,000,000 kilowatt-hours or more annually shall submit an accounting cost-of-service study in each rate case in conformance with (c) - (h) of this section. To support that study, the utility shall submit prefiled direct testimony in conformance with 3 AAC 48.275(a) (14).

(b) Each electric utility that sells less than 100,000,000 kilowatt-hours annually shall submit an accounting cost-of-service study when proposing new rate designs, or upon reasonable notice by the commission, in conformance with (c) - (h) of this section. To support that study, the utility shall submit prefiled direct testimony in conformance with 3 AAC 48.275(a) (14).

(c) Each electric utility shall use the general framework developed in the **NARUC Electric Utility Cost Allocation Manual** (1973) as the foundation for conducting an accounting cost-of-service study. This framework consists of the following primary components or steps:

- (1) costs are functionalized as production, transmission, or distribution;
- (2) functionalized costs are subdivided or classified into demand, energy, or customer costs; and
- (3) functionalized and classified costs are finally allocated to rate or customer classes.

(d) Each electric utility shall use customer demand and energy usage characteristics as the method for establishing rate classes for the customers it serves. Residential, small commercial, large commercial, and street lighting are the preferred classification titles for reflecting classes with homogeneous load characteristics. However, the commission will, in its discretion, consider alternative classifications provided that appropriate justification based on load research and consumer bill impact analysis is presented.

(e) In a cost-of-service study required by this section, demand capacity costs will be considered as follows:

(1) Each electric utility that sells 100,000,000 kilowatt-hours or more annually shall provide cost-of-service analyses that show the impact of

(A) allocating demand-related generation and transmission costs to rate classes on the basis of both the peak responsibility method and the average and excess method; and

(B) allocating demand-related distribution costs on the basis of the noncoincident peak method.

(2) Each electric utility that sells less than 100,000,000 kilowatt-hours annually shall provide cost-of-service analyses that show the impact of

(A) allocating demand-related generation and transmission costs to rate classes on the basis of the peak responsibility method; and

(B) allocating demand-related distribution costs on the basis of the noncoincident peak method.

(3) In addition to the methods required by this section, each electric utility may present to the commission additional analyses with appropriate justification which show the impact of using other methods to allocate demand costs.

(f) In a cost-of-service study required by this section, customer costs will be considered as follows:

(1) Customer costs may include

(A) carrying costs associated with service lines from the transformer to the meter, meters, and installations on customer premises; and

(B) meter-reading expense, customer installation expense, meter maintenance, and customer accounting and billing expense.

(2) Customer costs may not include

(A) any portion of the distribution system costs, which will be considered and classified as demand-related costs;

(B) any portion of the transmission system; or

(C) any portion of the generation system,

(g) Except as noted in (e) and (f) of this section, where the **NARUC Electric Utility Cost Allocation Manual** (1973) allows for the use of two or more approaches in addressing a cost-of-service issue, an electric utility shall provide explanation and justification for the use of its selected approach.

(h) Each electric utility shall state the unit customer, energy, and demand if applicable, cost components for each customer class for each cost-of-service study which is submitted.

**History: Eff. 11/22/84, Register 92; am 5/5/2000, Register 154**

**Authority:** AS 42.04.080

AS 42.05.141

AS 42.05.151

AS 42.05.361

AS 42.05.381

AS 42.05.391

AS 42.05.691

**Editor's note:** NARUC is the National Association of Regulatory Utility Commissioners. A copy of the *NARUC Electric Utility Cost Allocation Manual* mentioned in 3 AAC 48.540(c) and (g) is available for inspection at the offices of the Alaska Public Utilities Commission as specified in 3 AAC 48.010(a).

### **3 AAC 48.550. Rate design**

(a) The customer or fixed charge may recover only those customer costs defined in 3 AAC 48.540(f) (1) (A) and (B). However, the commission will, in its discretion, consider requests to increase or decrease the fixed charge when the electric utility or any other party submits to the commission appropriate justification and analysis which relates to its pricing objectives.

(b) Each electric utility shall use flat rates as the standard rate form for all customer classes. However, the commission will, in its discretion, upon submission of appropriate justification and analysis, including load research data, approve an alternative rate form.

(c) An electric utility may recover demand costs through rates as follows:

(1) each electric utility shall implement a three-part rate that includes a customer charge, a demand charge, and an energy charge to at least all customers consuming in excess of 7,500 kilowatt-hours per month or with a maximum demand of 20 kilowatts per month for three consecutive months; or

(2) in the absence of a separate demand charge as provided for under (c)(1) of this section, demand costs are recoverable through the energy charge.

(d) Conditions for use of seasonal rates by an electric utility are as follows:

(1) each electric utility shall implement seasonal rates where the rates are demonstrated to be cost-justified and cost-beneficial for the utility system; and

(2) each electric utility that sells 100,000,000 kilowatt-hours or more annually shall provide, upon reasonable notice by the commission, appropriate cost-of-service analysis and cost-benefit analysis that address the reasonableness of implementing seasonal rates.

(e) Based on its cost-of-service analysis in conformance with 3 AAC 48.540(c) - (h), each electric utility shall submit its preferred or recommended rates for all customer classes.

(f) The recommended or preferred rates submitted by an electric utility in compliance with (e) of this section must be accompanied by the following:

- (1) a comparison or summary of existing and proposed new rates for each customer class; and
- (2) a customer bill impact analysis which illustrates the percentage impact of the proposed rates at various levels of customer usage.

(g) Each electric utility shall design and, upon approval of the commission, distribute informative and understandable customer bills. Customer bills must, at a minimum, separately identify the following information for the billing period: customer charges; total kilowatt-hour consumption and associated energy charges; monthly kilowatt maximum demand and associated demand charges; and the energy surcharge, if appropriate. If billing is based upon an estimate, the customer bill must reflect this information.

**History: Eff. 11/22/84, Register 92**

**Authority:** AS 42.05.141

AS 42.05.151

AS 42.05.361

AS 42.05.381

AS 42.05.391

AS 42.05.691

**3 AAC 48.560. Related activities**

(a) Each electric utility shall develop and implement customer education and information programs for existing and new rate designs.

(b) Each electric utility which sells 100,000,000 kilowatt-hours or more annually shall develop and conduct load-research activities for all customer classes in conformance with guidelines promulgated by the commission.

**History: Eff. 11/22/84, Register 92**

**Authority:** AS 42.05.141

AS 42.05.151

AS 42.05.691