



Utah Office of Consumer Services

EBA Rate Spread

November 2nd, 2011



Background

- RMP initial EBA filing used an energy (kWh) allocator to spread the EBA balance to rate schedules.
- Rate Spread (PSC EBA Order):
 - (1) Principle – Collection or refund of EBA balance must be based on COS (EBA Order, pg. 80);
 - (2) Approach – PSC rejected use of energy allocator and ordered use of 2011 GRC revenue spread for spreading deferred EBA balance to rate schedules (EBA Order. Pg 78 & 80)

Other States

- Idaho and Wyoming have EBA-type mechanisms similar to Utah's EBA account. Each state uses a different approach for spreading accrual amounts among rate schedules.
 - (1) Idaho – The ECAM accrual balance is spread to rate schedules based on an energy (kWh) allocator.
 - (2) Wyoming – Transitioning from PCAM to ECAM; details are still being worked out. It appears any accrual balance will be proportionately spread to rate schedules based on the prior GRC rate spread.



Issue

- Is the Company's interpretation of the Commission's EBA Order for the purpose of spreading EBA balances consistent with the Commission's principle that the spread or collection of revenue must be based on COS?
- The Office submits that the Company's interpretation is inconsistent with COS as it relates to NPC. This occurs for two reasons:
 - (1) The GRC rate spread deals with the total increase associated with all revenue requirement components (cost of capital, rate base, OMAG, NPC, etc.) whereas an EBA rate spread should only be concerned with the more narrow NPC component of rates.
 - (2) The Company's interpretation fails to consider how the NPC amount in the last GRC is spread to classes in the Company's COS model.



Rate Spread Comparison

- The next slide is a spreadsheet comparing three EBA spread approaches. These include:
 - (1) The class rate spread percentages from the last GRC;
 - (2) The composite NPC spread in the COS model per the Company's requested NPC in the last GRC;
 - (3) The "Idaho" approach using a simple energy (kWh) allocator.



Rate Spread Comparison (cont.)

A	B	C	D	E	F
Customer Class	Last GRC Rate Spread	Composite NPC Allocator	Diff. (B-C)	Energy NPC Allocator ²	Diff. (C-E)
	%	%	%	%	%
1 Residential (Schs. 1, 2, 3)	39.13%	29.96%	9.17%	29.84%	0.12%
2 General Service (Schs. 6, 6A, 6B)	24.86%	27.29%	-2.44%	27.12%	0.18%
3 General Service > 1 MW (Sch. 8)	8.67%	9.54%	-0.88%	9.60%	-0.05%
4 Lighting (Schs. 7,11,12)	0.00%	0.35%	-0.35%	0.38%	-0.03%
General Service - High Voltage					
5 (Schs. 9, 9A)	15.63%	18.72%	-3.09%	18.86%	-0.14%
6 Irrigation (Schs. 10, 10 TOD)	0.74%	0.79%	-0.05%	0.76%	0.03%
7 Metered Outdoor Lighting (Sch. 15)	0.00%	0.02%	-0.02%	0.02%	0.00%
8 Traffic Signals (Sch. 15)	0.03%	0.07%	-0.04%	0.07%	-0.01%
9 Electric Furnace (Sch. 21)	0.02%	0.00%	0.02%		
10 General Service - Small (Sch. 23)	6.57%	6.21%	0.36%	6.16%	0.06%
11 Mobile Home Park (Sch. 25)	0.00%	0.05%	-0.05%	0.05%	0.00%
Back-Up, Maint., & Suppl. Service					
12 (Sch. 31)	0.05%	0.00%	0.05%		
Security Area Lighting Contracts					
13 (PTL)	0.00%	0.00%	0.00%		
14 Street Lighting Contracts (77)	0.00%	0.00%	0.00%		
15 Contract Customer 1	0.00%	0.00%	0.00%		
16 Contract Customer 2	0.00%	1.01%	-1.01%	1.03%	-0.01%
17 Contract Customer 3	3.65%	3.68%	-0.04%	3.76%	-0.08%
18 Contract Customer 4	0.66%	2.29%	-1.63%	2.35%	-0.06%
19 AGA/Revenue Credit	0.00%	0.00%	0.00%		
20 Total Utah	100.00%	100.0%		100.0%	

[1] This allocator represents energy-only allocations weighted by month, without demand elements. It is based on the Company's CCOS numbers from the last GRC. The calculation is (Class Energy-Only NPC)/(Total Energy-Only NPC).



Composite NPC Allocator

- The Composite NPC Allocator reflects all energy and demand accounts included in NPC.
- The Composite NPC is split into energy (94%) and demand (6%) components in the COS model. Thus, NPC are predominantly spread to customer classes on the basis of energy.
- However, the Composite NPC Allocator does include demand elements, which differentiates it from a simple energy allocator and appropriately incorporates all NPC elements.

Observations from Spread Comparison

- From a cost causation standpoint, either a composite NPC or simple energy allocator are better approaches for spreading EBA balances. These approaches appropriately target the NPC components of rates compared to a more general approach that encompasses all revenue requirement elements, many of which are not included in NPC.
- The selection of a spread approach has a significant impact – a 9.17 percentage point difference -- on a single class of customers, residential customers. Thus, inter-class fairness is another reason why it is important to implement the Commission's EBA decision consistent with sound COS principles.



Precedent – MPA Case

- In the MPA Case, the Commission initially directed parties to use the non-uniform rate spread from the prior GRC (09-035-23) to guide rate spread proposals. In that case, parties negotiated a settlement that relied on a much more limited F-10 plant allocation factor in the COS model to spread a distinct set of generation and transmission costs among customer classes. The Commission recognized the more limited and distinct set of costs as being more representative of the costs in the MPA docket and approved a stipulation involving a compromise on the F-10 allocation factor.
- The spread of EBA accrual balances parallels that of the MPA Case. As with the MPA case, the Commission and parties are dealing with a distinct set of costs –NPC in this instance – that require an allocator that better fits the category of costs at issue in EBA proceedings.



Conclusion

- The Office believes that either a composite NPC allocator or a simple energy allocator are superior approaches for spreading accrual balances in the EBA account among rate schedules. These approaches better reflect the distinct set of NPC costs that will spread to customers in EBA cases.