# Cost of Service/Rate Design Technical Conference

## Docket No. 19-057-02



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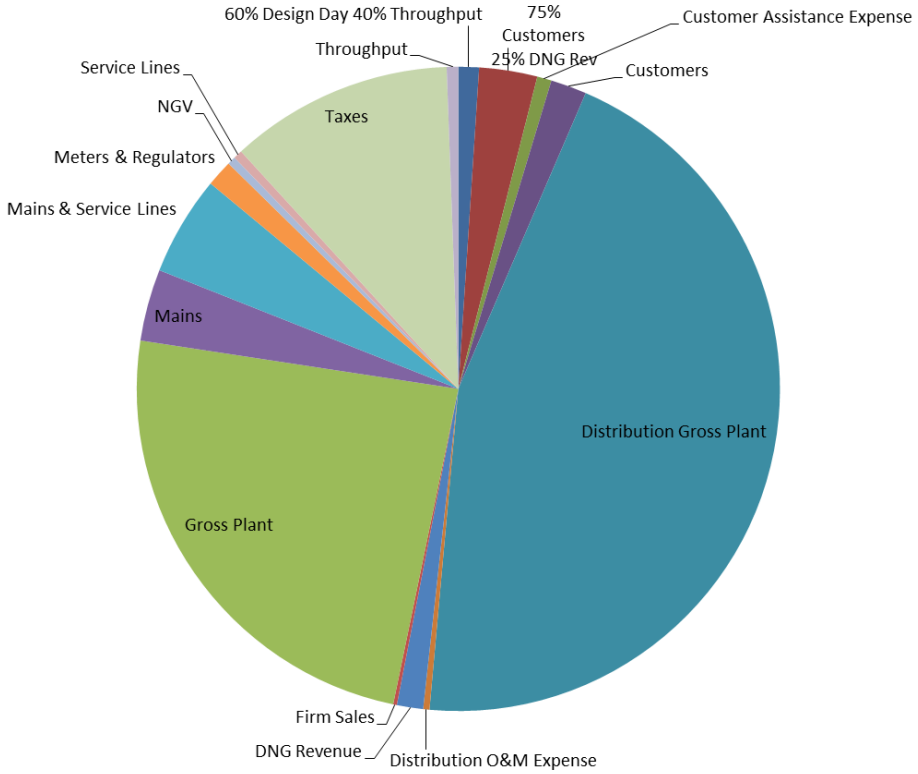
# Overview of Cost of Service Studies

- Same Cost of Service Studies that were used in 2013 and 2016

- Most Used Allocators
  - Distribution Plant (Mains, Services, Meters & Regulators)
  - Design Day
  - Throughput

- Goal to eliminate inter-class subsidies

# Allocation of Expense by Allocator



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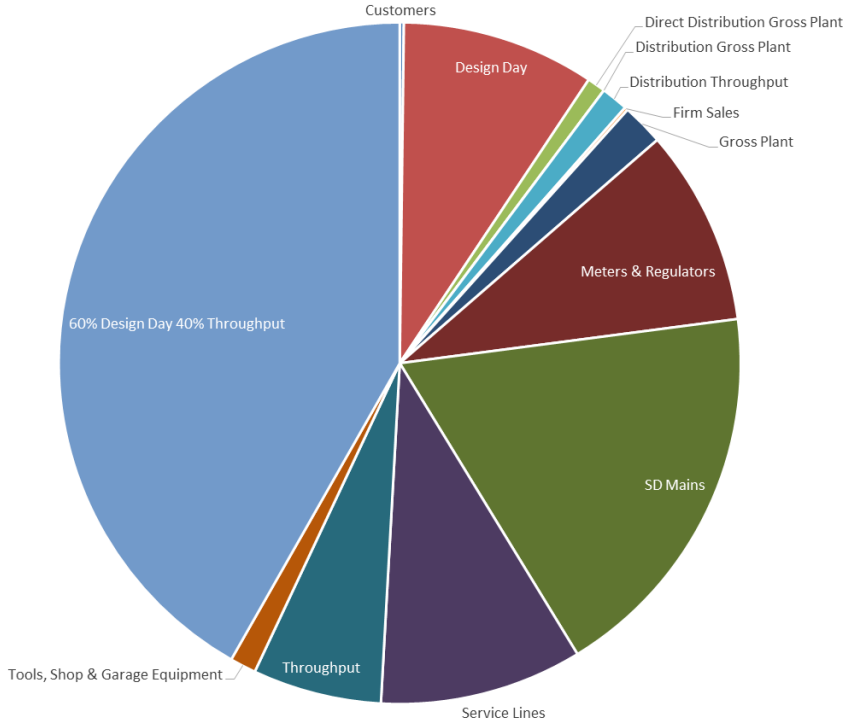
# Allocation of Rate Base by Allocator



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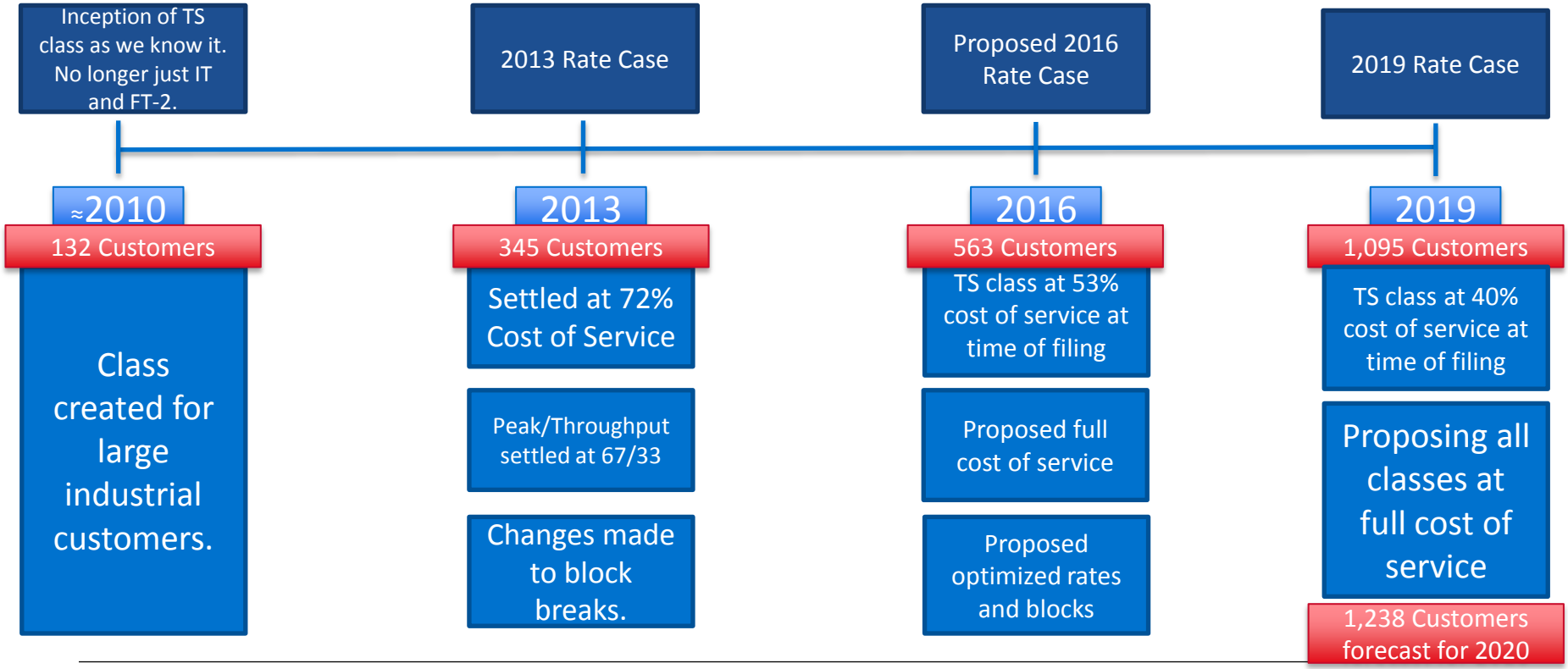
# Rate Design Objectives (all classes)

- Cost Causation – Customer that causes the cost should pay the cost
- Consistency
  - From class to class – customer should be paying similar distribution costs
  - From rate case to rate case
- Remove DNG incentives to switch classes
  - Commodity incentives are decreasing over time
- Remove intra-class subsidies

# Timeline of TS Class



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# Rate Design Results for TS class

- High growth rate in TS class
- Subsidized rates for over a decade
- Getting the volume discount without using the volume
- Use of rate optimization in TS class is an option, just needs to be used for homogeneous groups of customers



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# TS class rates – rate design results (DPU #3)

## Optimal TS Rates

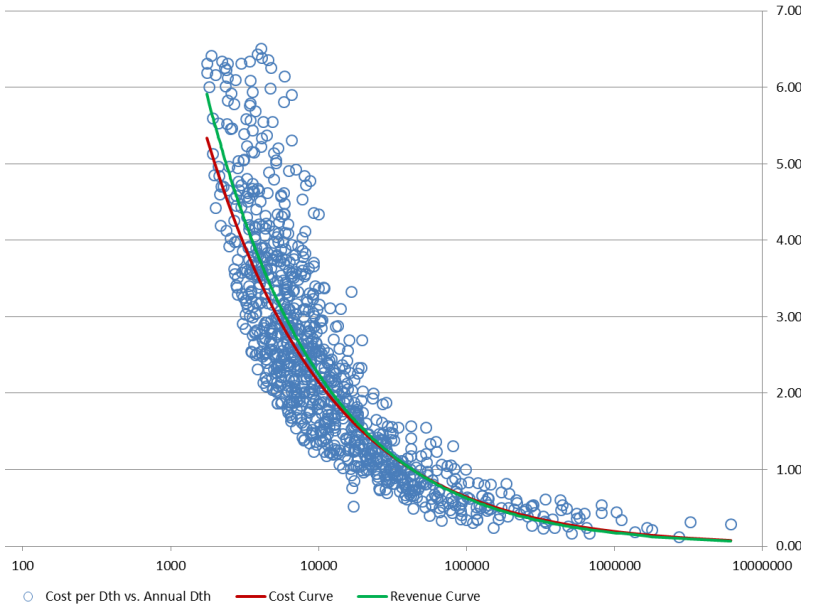
| First 400 | Next 1,600 | Next 48,000 | All over 50,000 |
|---|---|---|---|
| $2.48313 | $1.30313 | $0.25313 | $0.19313 |

## Existing TS Rates

| First 200 | Next 1,800 | Next 98,000 | All over 100,000 |
|---|---|---|---|
| $0.74751 | $0.48865 | $0.19983 | $0.07396 |

## Proposed TS Rates

| First 200 | Next 1,800 | Next 98,000 | All over 100,000 |
|---|---|---|---|
| $1.21967 | $0.79730 | $0.32605 | $0.12068 |



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# TS Class Rate Design Options

Step 1

Full Cost of Service

35,000 Dth Minimum

Step 2

| Split class or optimize rates in next rate case | Use Optimized Rate Design Now | Split Class Now |
|---|---|---|
| • Allows time for customers to choose where they want to be<br>• WACOG prices get closer to market<br>• Allows time to research best option | • Unreasonable rates for small customers<br>• Mass migration from TS back to sales<br>• Could solve intra-class subsidies now<br>• Drastic changes to blocks might have to be changed back next case | • Studying now – data requests<br>• Could resolve intra-class subsidies now<br>• Would require a class minimum |



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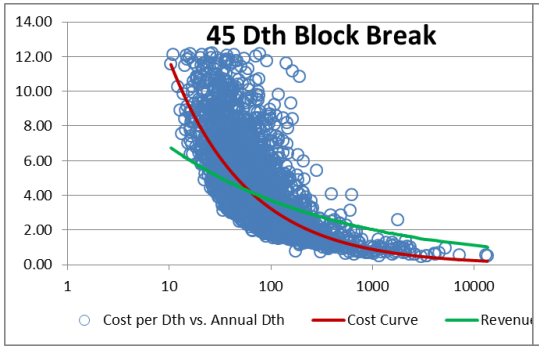
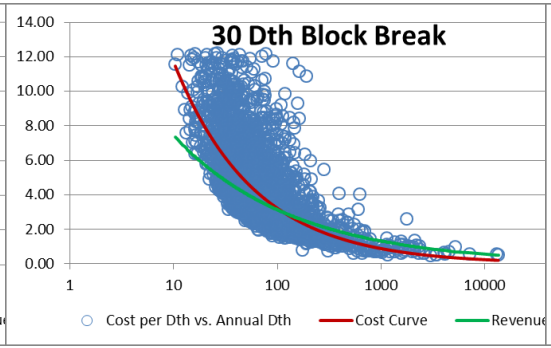
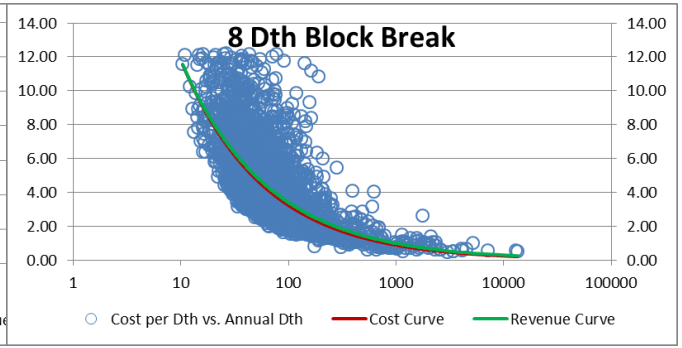
# GS Class Rate Design DPU #2

- Cost curves showed that large customers were subsidizing small customers
  - This also contributes to customers moving to the TS class
  - Partial move now will reduce rate shock in 2022 general rate case

| Current | Proposed | Optimal |
|---|---|---|




| | | | | | |
|---|---|---|---|---|---|
| Block 1 | 2.79390 | Block 1 | 2.89676 | Block 1 | 3.66291 |
| Block 2 | 1.52525 | Block 2 | 0.99535 | Block 2 | 0.51236 |
| Block Differential | 1.26865 | Block Differential | 1.90141 | Block Differential | 3.15055 |



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# DPU #4 & #5 – allocation of design day costs to IS class

| IS | Proposed | Adding Design-Day | Difference |
|---|---|---|---|
| Total Volumetric Requirement | $110,031.98 | $175,856.42 | $65,824.44 |
| Block 1 | $0.96532 | $1.54281 | $0.58 |
| Block 2 | $0.14577 | $0.23297 | $0.09 |
| Block 3 | $0.08580 | $0.13713 | $0.05 |

- Curtailment during Operational Flow Order (OFO)
  - Purpose of OFO is to match supply to usage, not to reduce or curtail usage
  - Haven't had "hold burn to scheduled quantity" or an interruption since new tariff approved
- No A&G in the plant factor study, but some A&G costs are allocated using the distribution plant factor



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# PSC Questions – Plant study for multi-unit dwellings

- The plant study as filed does not identify the differences between single and multi-family dwellings. The GS class includes single and multi-family dwellings, as well as commercial customers.

| | Multi Dwelling | Single Dwelling |
|---|---|---|
| Population Total | 223,049 | 724,545 |
| Sample Total | 685 | 2,309 |
| | | |
| Average Service Line Cost | $ 1,444 | $ 1,653 |
| Average Service Line cost w/ shared meters (average 8 meters/service) | $ 499 | |
| Average Service Line Footage | 52 | 61 |
| | | |
| Average Main Line Cost | $ 1,402 | $ 1,654 |
| | | |
| Average Meter Cost | $ 530 | $ 406 |

# OCS Questions

- #1 – Changes to COS studies
  - Same COS methods used in 2016 and 2013 rate cases
  - 2013 case (settled) did not allocate design day costs to IS class
- #2 – Determining “gradualism adjustment”
  - This is the 50% subsidy given to the TBF class
  - Historically determined to be a discount that provides incentive to not bypass
- #3 – Allocation factor used to spread the TBF subsidy
  - 60% design day/40% throughput used in the 2013, 2016, and 2019 cases
  - Same allocation factor used to allocate costs of M&R stations and Feeder Lines
    - TBF customers use assets that are similar to those allocated with the 60/40

# ANGC Questions

- #1 – Comparing rates to surrounding states
  - Each state has different objectives, rate designs, rate classes
  - Rates must be set on Utah rules, customers, and costs
- #2 – Contracting on a yearly schedule
  - Coincides with IRP planning – gas supply purchases
- #3 – Effective date of 35,000 Dth floor
  - Provision would be effective March 1, 2020.
  - Provision would apply to new customers in July 2020

# ANGC Questions (continued)

- #4 – Designing a separate rate for customers less than 35,000 Dth annually
  - Anticipated using declining blocks
  - Two outstanding data requests asking for Cost of Service at 35,000 Dth and 120,000 Dth (minimum usage requirement before TS class)
- #5 – With Admin Fee and BSF, what costs is DEU under-collecting from customers under 35,000 Dth?
  - DEU doesn't have a rate structure for customers less than 35,000 Dth
  - In TS class as a whole, Admin fee and BSF collect $5,475,363 of $40,582,654

# ANGC Questions (continued)

- #6 – Analyses and studies used by DEU to assess impacts of rate changes
  - COS studies – tell which customers should pay for costs
  - % change of total bill (commodity included to be consistent with sales customers)
  - Comparison of rates to sales classes (where customers came from)
  - Consistency between classes – costs should follow customer
  - Reasonableness
- Creation of a 35,000 Dth floor meant to stop the subsidies from getting worse
  - Doesn’t cause rates to change in the TS class

# ANGC Questions (continued)

- #7 – TS customer count used for Admin charge vs count used for 2020 forecast
  - Admin charge was based on 2019 actual customers
  - 2020 forecast shows customer count used to collect revenue in 2020
- #8 – Customer growth from June 2020 to July 2020
  - 2019 IRP assumed 2019 growth would carry forward to 2020
  - New TS customers start service on July 1
- #9 – Basis for 60/40 allocation instead of 67/33 as settled in 2013 general rate case
  - “The Parties do not agree on whether the Settlement Model represents the proper way of calculating cost of service, and agree that any assumptions employed in that model should bear no precedential value in any other matter.” - Settlement Stipulation in Docket No. 13-057-05, paragraph 14