

## **Attachment A: Proposed Rules Based on Best Practices from Other States**

The OCS notes that many other states have existing rules in place regarding filing requirements for general rate case (and other) utility filings. We have completed a partial review of some states (some links provided below.) In our review, we have compiled certain rules and requirements that represent best practices for facilitating an adequate review of utility filings.

### **LINKS**

Montana Public Service Regulation Rule Chapter 38.5 Minimum Rate Case Filing Standards for Electric, Gas, and Private Water Utilities

<http://www.mtrules.org/gateway/ChapterHome.asp?Chapter=38.5>

Michigan

[http://www.dleg.state.mi.us/mpsc/orders/archive/pdfs/U-4771\\_05-10-1976.PDF](http://www.dleg.state.mi.us/mpsc/orders/archive/pdfs/U-4771_05-10-1976.PDF)

Nevada

[Pucweb1.state.nv.us/PDF/Admin/MasterDataRequest.pdf](http://pucweb1.state.nv.us/PDF/Admin/MasterDataRequest.pdf)

Illinois

[www.ilga.gov/commission/jcar/admincode/083/08300285sections.html](http://www.ilga.gov/commission/jcar/admincode/083/08300285sections.html)

Washington

<http://apps.leg.wa.gov/WAC/default.aspx?cite=480-07-510>

### **RULES REQUESTED**

1. Define “materiality of an application deficiency”, or develop criteria or standards by which the Commission will determine the materiality of an application deficiency. Proposed definitions include:

- Information is material if its omission or misstatement could influence the economic and financial analysis of regulatory agencies. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cutoff point rather than being a primary qualitative characteristic which information must have if it is to be useful.
- The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles.
- The magnitude of an omission or misstatement of financial, operational, or economic information that, in the light of the filing as a whole, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or

misstatement. Materiality judgments are made in light of surrounding circumstances and necessarily involve both quantitative and qualitative considerations.

- Materiality considers the significance of the information and data to the filing as a whole and the significance of the information and data to the testing of critical assertions associated with the financial, operational, economic and other assumptions upon which the filing is based.
- To be material, an application deficiency must bear a significant relationship with the facts or issues of a case such that omission or misstatement can affect its conclusion or outcome.

2. Require that a filing identify whether in the most recent general rate case, the utility was required by stipulation, report and order or otherwise, to comply with or adopt different or modified ratemaking, rate design or other methods, models, formulas or calculations; require that the filing identify whether the utility has complied with the requirements and to identify those parts of the filing affected; and, require that the filing identify deviations from the requirements.

3. Define the requirement to produce work-papers. Proposed definitions include:

- Source data used for working papers must either be attached and indexed, or clearly identified. Unattached source data must be available for inspection.
- When assumptions are made in a calculation, allocation, or determination of working paper schedule amounts, narrative or other support should be included so that the reasonableness of the work paper can be reviewed.
- Testimony, exhibits and work-papers must clearly document the methodologies utilized in arriving at each projected item, the variables utilized, the actual assumptions adopted and the sources of these assumptions, whether internal or external to the utility.
- **Work papers and accounting adjustments.**

(a) At the time the company makes its general rate case filing, the company must provide one copy of all supporting work papers of each witness to public counsel and three copies to staff in a format as described in this subsection. Staff and each other party must provide work papers to all other parties within five days after the filing of each subsequent round of testimony filed (e.g., response, rebuttal). If the testimony, exhibits, or work papers refer to a document, including, but not limited to, a report, study, analysis, survey, article or decision, that document must be included as a work paper unless it is a reported court or agency decision, in which case the reporter citation must be provided in the testimony. If a referenced document is voluminous, it need not be provided, but the company must identify clearly the materials that are omitted and their content. Omitted materials must be provided or made available if requested. The following information is required for work papers:

(b) *Organization.* Work papers must be plainly identified and well organized, and must include an index and tabs. All work papers must be cross referenced and include a description of the cross referencing methodology.

(c) *Electronic documents.* Parties must provide all electronic files supporting their witnesses' work papers. The electronic files must be fully functional and include all formulas and linked spreadsheet files. Electronic files that support the exhibits and work papers must be provided using logical file paths, as necessary, by witness, and using identifying file names. A party may file a document with locked, hidden or password protected cells only if necessary to protect the confidentiality of the information within the cells or proprietary information in the document. The party shall designate that portion of the document as confidential under RCW [80.04.095](#), WAC [480-07-160](#), and/or a protective order, and the party shall provide it to any person requesting the password who has signed an appropriate confidentiality agreement.

(d) A detailed portrayal of the development of any capital structure and rate of return proposal and all supporting work papers in the format described in this subsection.

- (e) *Restating and pro forma adjustments.* Parties must provide work papers that contain a detailed portrayal of restating actual and pro forma adjustments that the company uses to support its filing or that another party uses to support its litigation position, specifying all relevant assumptions, and including specific references to charts of accounts, financial reports, studies, and all similar records relied on by the company in preparing its filing, and by all parties in preparing their testimony and exhibits. All work papers must include support for, and calculations showing, the derivation of each input number used in the detailed portrayal and for each subsequent level of detail. The derivation of all interstate and multiservice allocation factors must be provided in the work papers.

(i) *Change in methodologies for adjustments.* If a party proposes to calculate an adjustment in a manner different from the method that the commission most recently accepted or authorized for the company, it must also present a work paper demonstrating how the adjustment would be calculated under the methodology previously accepted by the commission, and a brief narrative describing the change. Commission approval of a settlement does not constitute commission acceptance of any underlying methodology unless so specified in the order approving the settlement.

(ii) "Restating actual adjustments" adjust the booked operating results for any defects or infirmities in actual recorded results that can distort test

period earnings. Restating actual adjustments are also used to adjust from an as-recorded basis to a basis that is acceptable for rate making. Examples of restating actual adjustments are adjustments to remove prior period amounts, to eliminate below-the-line items that were recorded as operating expenses in error, to adjust from book estimates to actual amounts, and to eliminate or to normalize extraordinary items recorded during the test period.

(iii) "Pro forma adjustments" give effect for the test period to all known and measurable changes that are not offset by other factors. The work papers must identify dollar values and underlying reasons for each proposed pro forma adjustment.

(f) A detailed portrayal of revenue sources during the test year and a parallel portrayal, by source, of changes in revenue produced by the filing, including an explanation of how the changes were derived.

(g) If the public service company has not achieved its authorized rate of return, an explanation of why it has not and what the company is doing to improve its earnings in addition to its request for increased rates.

(h) A representation of the actual rate base and results of operation of the company during the test period, calculated in the manner used by the commission to calculate the company's revenue requirement in the commission's most recent order granting the company a general rate increase.

(i) Supplementation of the annual affiliate and subsidiary transaction reports as provided in rules governing reporting requirements for each industry, as necessary, to include all transactions during the test period. The company is required to identify all transactions that materially affect the proposed rates.

4. Requirements for forecasts and projections.

- All data whether historical or otherwise that is utilized in making projections, must document any adjustments to actually recorded data. Because procedures for forecasting different terms (short term v. long term forecasts) may use different variables and methodologies, differences must be documented.
- When projecting customer demands, reserves, generation availability and capacity, construction requirements, and rate level changes the following information shall be included:

At the minimum, the following information shall be included:

1. Projected customer demand.

To the extent possible projections must be determined by utilizing standard statistical testing procedures so that purely judgmental projections are minimized and must include the following:

- kwh sales by class of customer including sales to other utilities;
- low, high and mean projections of demand, by year, which satisfy a 90% confidence interval test;
- mean demand projections for future years by month;
- load duration curves for each future year;
- space heating and air-conditioning saturation projections for each year for residential customers and for commercial customers (the latter would, for instance, be measured in terms of saturation per square foot);
- weather sensitive portion of projected summer and winter peaks;
- coincident load factors by customer class and for the total system;
- system requirements by year including system losses and projected sales to other systems.

2. Target reserve levels.

- state the reserve capacity in megawatts and as a percentage of peak demand which has been determined by the Applicant to be the acceptable level for the system concerned;

- on what basis were the above levels calculated (e.g., loss of load probability analysis, etc.)

3. Estimated availability and capacity factors of in-service generation.

- provide factors for each year for the total system and by generating plant;
- provide specific explanation of abnormal plant capacity factors.

4. Estimated construction requirements.

Complete detail of both methodology and assumptions should be provided for each of the five cases given below in projecting yearly construction budgets:

- Case A: Given mean demand and reserve as projected by the Company;
- Case B: Given demand to be the low estimate of the 90% confidence interval plus reserves;
- Case C: Given demand to be the high estimate of the 90% confidence interval plus reserves;
- Case D: Given mean demand as projected by the Company and a 5 percentage point decrease in the percentage of peak demand reserve requirements;
- Case E: Given mean demand as projected by the Company and a 5 percentage point increase in the percentage of peak demand reserve requirement.

5. Estimated rate level changes.

A comparative analysis of required rate changes shall be given. The analysis should include the following:

- Rate Base projections should follow the format of Exhibit A-2, page 2 of 8;
- Rate of Return projections should follow the format of Exhibit A-4, page 2 of 7. However, preferred stock should be further divided into convertible and non-convertible stock and deferred income taxes should be divided into Federal and Michigan taxes;
- Revenue Deficiency projections should follow the format of Exhibit A-1, page 2 of 4 deleting the earnings erosion allowance;
- Projections of Adjusted Net Operating Income should include a minimum of the following items:
  - a. kwh sales revenues by rate class including a specific explanation of the estimation procedure (e.g., average rate method, etc.);
  - b. fuel clause revenues;
  - c. other revenues;
  - d. operation and maintenance labor expense;
  - e. fuel expense including plant names, type of fuel utilized, unit fuel price by plant, projected kwh to be generated by plant, fuel cost per kwh by plant, summary of above information by type of plant (e.g., nuclear, oil, etc.);
  - f. purchase and interchange power expense including type of purchase (e.g., economy energy, long-term purchases, etc.), transacting parties and kwh to be sold or purchased from each, portion of expense attributable to fuel charges, capacity charges and other charges;

- g. other operation and maintenance expense;
  - h. depreciation and amortization expense including categories of plant projected and amount of each, methodologies of projecting each category, and depreciation rates utilized; methodology utilized in projecting amortization of nuclear fuel should also be included;
  - i. property tax;
  - j. other general taxes by type of tax where possible;
  - k. income taxes;
  - l. A.F.D.C. including rates utilized in the projections;
  - m. income from reacquired securities;
- Jurisdictional Separation methodologies should be documented.