

# Chugach Electric Association, Inc.'s Closing Statement

REGULATORY COMMISSION OF ALASKA

U-16-066

# Topics for Closing

- ▶ Economy Energy Sales
- ▶ Seaboard v. Coincident Peak
- ▶ Postage Stamp Rates

# ECONOMY ENERGY SALES

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- ▶ Economy Sales Revenues Should Be Returned To Firm Transmission Customers, Which Include ENSTAR's Retail Customers and the Electric Utilities
- ▶ ENSTAR Is Double Recovering
  - ENSTAR excludes economy sales revenues to determine its revenue requirement--but still pockets the funds
  - Under ENSTAR's proposed revenue requirement, it will fully recover for transmission costs through firm contracts
  - Under ENSTAR's approach, economy sales are extra profit
- ▶ RECOMMENDATION: Commission should require ENSTAR to return economy energy sales proceeds to its firm transmission customers, and direct ENSTAR to file a tariff advice letter proposing how it will do so

# COST ALLOCATION

- ▶ Commission Last Decided on Seaboard in 1987
  - At that time, Seaboard was the favored approach nationally
  - It was FERC policy
  - Recommended in 1981 NARUC Manual

## COST ALLOCATION (cont'd)

- ▶ Same Approach Applied Today Would Lead RCA to Adopt Coincident Peak
  - FERC has moved to CP (SFV contract demand is still driven by maximum demand of contracts)
  - NARUC Manual superseded in 1989 – (applies to transmission AND distribution)
  - Circumstances in Alaska have changed



# COST ALLOCATION (cont'd)

## ▶ FERC Has Abandoned Seaboard

- Seaboard is Anti-Competitive
  - FERC realized it distorted gas market pricing (post-1952 FERC cases)
  - "...the use of Seaboard for rate design has serious infirmities." (*United Fuel Gas Company*, 31 FPC 1342, 1964)
- Seaboard's 50/50 split is arbitrary and does not follow the cost causation model

## **COST ALLOCATION** (cont'd)

- ▶ NARUC Manual No Longer Recommends Seaboard
  - Transmission costs are fixed costs
  - Fixed costs are attributed to capacity (peak)

## **COST ALLOCATION** (cont'd)

- ▶ Cost Allocation Should be Tied to Cost Drivers
  - Peak demand drives cost
  - Transmission is recognized as a fixed, capacity-related expense



## **COST ALLOCATION** (cont'd)

- ▶ ENSTAR Approach to Past Settlements is Concerning
  - ENSTAR asks RCA to ignore detailed policy explanation to which they stipulated in 2009
  - ENSTAR claims a black box settlement supports their method
  - Is a detailed stipulation to be treated as meaningless “words on a page?”

## COST ALLOCATION (cont'd)

- ▶ Explanations by ENSTAR and RAPA experts are illogical
  - “Intent” Does Not Change Cost
  - “Gas Supply Concern” Does Not Change Cost

## **COST ALLOCATION** (cont'd)

- ▶ Gradualism is a Nice Word for Unfairness
  - ENSTAR acknowledges that Seaboard would result in a drastic increase to transmission customers
  - ENSTAR requests adoption of an unfair methodology and then asks to mitigate that unfairness
  - The unfairness would continue until ENSTAR's next rate case

# POSTAGE STAMP RATES

## ▶ Titan & HEA Want Special Treatment

- For 40 years, postage stamp rates have been the policy of this Commission
- Standard policy for regulatory commissions around the country
- Good policy: everyone benefits from a strong, integrated system – it's all about reliability

## POSTAGE STAMP RATES (cont'd)

- ▶ Titan & HEA Benefit from Entire System
  - Gas supplies come from around the inlet
  - Reliability is important to customers – emergencies happen
  - Evidence shows that both Titan & HEA have used and relied on the whole system



## POSTAGE STAMP RATES (cont'd)

### ► Slippery Slope

- Every rate making case will have intervenors asking for special treatment
- If Titan & HEA are entitled to distance-based rates, why not everyone else – for every utility?
- New rate case every time Titan & HEA uses new part of system?



# SUMMATION

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- ▶ Economy Energy Sales: Commission should order revenue returned to customers and direct the filing of a tariff advice letter
- ▶ Seaboard v. Coincident Peak: Commission should order the adoption of Coincident Peak cost allocation method
- ▶ Postage Stamp Rates: Commission should continue with a uniform policy