



### **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

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(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 Regulatory Commission of Alaska as specified in 3 AAC 48.010(a) .

