

## **Section 7 – Cost Recovery**

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### ***Cost Recovery Mechanism***

Public Service plans to use the same cost recovery mechanisms for its 2009 Compliance Plan that the Commission approved for the 2008 Compliance Plan, namely, (1) the Electric Commodity Adjustment (“ECA”) to recover the costs of Eligible Energy that match the costs of the avoided non-renewable resources and (2) the Renewable Energy Standard Adjustment (“RESA”) to recover the costs of the Eligible Energy that are incremental to the costs of the avoided non-renewable resources and the program and administration costs .

By continuing to recover the incremental costs through the RESA, the RESA provides a ready check on whether the Company has complied with the two percent retail rate impact limit in Rule 3661(a).

The Company is proposing to change how the projected costs of Eligible Energy are trued-up to actual costs. In past plans, the Company used the RESA deferred account to true-up to actual costs. In this 2009 Plan, we are proposing to use the ECA deferred account as the true-up mechanism. Production from renewable energy facilities can be different than projected – particularly for intermittent facilities like wind. If a wind facility produced more than projected, and the RESA deferred balance is used as the true-up account, then the full cost of the additional energy production (not just the incremental cost of that energy) would hit the RESA. The RESA is limited and is intended to reflect only the incremental costs of renewable energy – not the full costs of unanticipated surplus production. To rectify this problem, Public Service now proposes to true up actual costs in the ECA, rather than unfairly burden the RESA.

Through the Strategist modeling described in Section 6 of this compliance plan, the Company has modeled the Incremental Energy Costs of the RES Plan over the No RES Plan for each year of the RES Planning Period through 2020. The

Company then derived the costs that need to be recovered through the RESA as the Incremental Energy Costs from the Strategist modeling from the total costs of the Eligible Energy Resources. These projected incremental costs will be recalculated at the time that the Eligible Energy Resource is acquired, or at the time of the next Compliance Report, using actual rather than projected costs of the resource. Once this incremental cost analysis is performed (net cost or net benefit determined), it will be “locked down” and used in future compliance plans as the net incremental cost of that resource for purposes of impacting the RESA. To the extent that production varies from assumed, that will be trued up in the ECA. In no event will the Company recover more than the costs that are actually incurred to build or buy Eligible Energy Resources. The only issue here is which of the two adjustment clauses are used for the truing up to actual costs.

The RESA will be used to pay for the Purchased REC Costs and the Program and Administrative Costs. Wholesale Revenues received for the Eligible Energy assumed in the Compliance Plan will be credited against the deferred balance. The difference between the actual costs and what is actually collected will be carried forward, with interest at the Company's customer deposit rate, and accrued monthly, in the RESA Deferred Account.

### ***Regulatory Accounting for the RESA Program***

In accordance with FAS 71, a deferred regulatory account has been established to record the revenue, costs, and accrued interest for the RESA program which are reported to the Commission via the Company's monthly reports. In addition, transactions are captured to meet the program's regulatory reporting requirements as well. For example, work orders summarize costs by type and size of renewable energy (e.g. customer-sited solar <10 kW), and other segments of the account code detail the nature of the cost (labor, consulting, renewable energy credits) and the business area incurring the cost. Interest is accrued monthly on the net balance at the customer deposit rate.

Costs booked to the deferred regulatory account are classified as either program or administrative costs. Program costs include, but are not limited to:

- Renewable Energy Credits (RECs)
- Rebates
- REC certification
- Meter sets for second meter
- Incremental energy

Administrative costs include, but are not limited to:

- Incremental labor, employee expense
- Marketing
- IT software for REC database
- Start-up billing costs
- Audit fees

Rule 3661(d) caps administrative costs at ten percent per year of the total annual collection. Public Service does not anticipate exceeding that cap.