

3005. Records.¹

- (a) Every electrical utility shall maintain required records at its principal place of business during regular business hours, as follows:
 - (XI) Records and supporting documentation concerning its cost assignment and allocation manual and full cost accounting study under rule 3503(j), until the Commission approves a subsequent manual.

3006. Reports. Each utility shall provide reports to the Commission as follows:²

- (f) Cost assignment and allocation manuals, full cost accounting studies, and updates required under rules 3503(a), (d), and 3504(a).

COST ASSIGNMENT AND ALLOCATION

3500. Special Definitions.

The following special definitions apply only to rules 3501 - 3505.

- (a) "Cost allocation" means a portion of a joint or common cost that is charged to a particular company, affiliate, entity, division, or service based on a reasonable basis and an established calculation method(s).
- (b) "Cost assignment" means that a cost is directly charged to a particular company, affiliate, entity, division, or service.
- (c) "Cost assignment and allocation manual" (CAAM) means the indexed document filed by a utility with the Commission that describes and explains the calculation methods the utility uses to segregate and account for revenues, expenses, assets, liabilities, and ratebase cost components assigned or allocated to Colorado jurisdictional services. It includes the calculation methods to segregate and account for costs between and among jurisdictions, between regulated and unregulated services within Colorado, and between and among utility divisions within Colorado.
- (d) "Division" means a business activity organized as a functional unit (e.g. electric, gas, or thermal departments).

¹ Material including 3005(a)(I)-(IX) is omitted, as it is intended to be published in a separate Notice of Proposed Rulemaking.

² Material including 3006(a)-(e) is omitted, as it is intended to be published in a separate Notice of Proposed Rulemaking.

- (e) "Financially-related" means a situation where there is no control, as defined in "Affiliate", but a monetary relationship exists between the entities (e.g. a service company that assigns or allocates costs to a utility).
- (f) "Full cost accounting" means the Colorado jurisdictional costs derived from the process of segregating, assigning, and allocating the revenues, expenses, assets, liabilities and ratebase amounts recorded in the utility's accounting books and records using cost accounting, engineering, and economic standards. Full cost accounting also includes a return on investment.
- (g) "Full cost accounting study" is a cost study that is derived using full cost accounting concepts, methods, and standards.
- (h) "Incidental services" means non-tariffed or deregulated services that have traditionally been offered in conjunction with Tariff services where the revenues for all such services do not exceed:
 - (I) The greater of \$100,000 or one percent of the provider's total annual Colorado operating revenues for regulated services; or,
 - (II) The provider-specific revenue levels as ordered by the Commission.
- (i) "Jurisdictional" means having regulatory rate authority over a utility. Jurisdiction can be at a state or federal level.
- (j) "Regulated service" means any service, product line, business operation, or other business activity that is offered as a public utility service as defined in Title 40, Articles 1 to 7 C.R.S., and is regulated by the Commission or regulated by another state utility commission or the FERC, or any unregulated service which meets the criteria specified in rules 3502 (g).
- (k) "Unregulated service" means any service, product line, business operation, or other business activity that is not offered as a public utility service as defined in Title 40, Articles 1 to 7, C.R.S., and is not regulated by this Commission or another state utility commission or the FERC.

3501. Basis, purpose, and statutory authority.

- (1) The purpose of these rules is to establish cost assignment and allocation principles to assist the Commission in setting just and reasonable rates, as required by § 40-3-114 C.R.S. and to ensure that utilities do not use ratepayer funds to subsidize unregulated activities, in accordance with § 40-3-114 C.R.S. In order to promote these purposes, these rules also specify information that utilities must provide to the Commission.

3502. Cost Assignment and Allocation Principles.

In its cost assignment and allocation manual, full cost accounting study, and related party transactions the utility shall apply the following principles:

- (a) If only one affiliate, entity, division, service, or jurisdiction causes a cost to be incurred or benefits from a cost, that cost shall be directly assigned to that affiliate, entity, division, service, or jurisdiction. Direct assignment should be performed whenever practicable and is preferred over allocation.
- (b) If more than one affiliate, entity, division, service, or jurisdiction causes a cost to be incurred or benefits from a cost, that cost shall be fairly and equitably allocated among all the affiliates, entities, divisions, services, and jurisdictions that cause the cost to be incurred or benefit from the cost. The following principles shall apply to such allocations (listed in descending order of required application):
 - (I) Cost causation. All affiliates, entities, divisions, services, and jurisdictions that cause a cost to be incurred shall be allocated a portion of that cost.
 - (II) Variability. If a direct correlation exists between a change in a cost and changes in the quantities sold of the services that cause the cost to be incurred, that cost shall be allocated based upon that relationship.
 - (III) Traceability. A cost may be allocated using a measure that has a logical or observable correlation to all the affiliates, entities, divisions, services, and jurisdictions that cause the cost to be incurred. For example, labor intensive customer-service operations and customer service-related investments may be allocated based on customer-service labor, using appropriate time-reporting methods.
 - (IV) Benefit. All affiliates, entities, divisions, services, divisions, or jurisdictions that benefit from a cost shall be allocated a portion of that cost.
- (c) To the extent possible, all direct and allocated costs between regulated and unregulated services should have an audit trail which is traceable on the books of the applicable regulated utility to the applicable Federal Energy Regulatory Commission Uniform System of Accounts.
- (d) In a rate proceeding involving the calculation of revenue requirement, a rate proceeding involving calculation of rates by class-of-service, a complaint proceeding where cost assignments or allocations are at issue, or a proceeding where CAAM approval is sought, the utility or any party may advocate another cost assignment or allocation principle for a particular cost, if the

Commission has already approved the principle for that cost, or if, for good cause shown, the Commission determines that the alternative principle is in the public interest. The party requesting the alternative approach shall have the burden of proving the need for an alternative principle and why the particular principle is appropriate for the particular cost.

- (e) If the utility believes that specific cost assignments or allocations are under the jurisdiction of another authority, the utility shall so state in its cost assignment and allocation manual and give a written description of the prescribed methods. Nothing herein shall be construed to be a delegation of this Commission's ratemaking authority related to those assignments or allocations.
- (f) A utility may classify non-jurisdictional services as regulated if the services are rate-regulated by another agency (i.e., another state utility commission or the FERC) and where there are agency-accepted ratemaking principles or methods for assigning and allocating the costs and revenues associated with such services. This rule may apply, for example, to a provider's wholesale sales of electric power and energy. For such services, the utility shall identify the services in its manual, and account for the revenues, expenses, assets, liabilities, and ratebase associated with these services as if these services are regulated.
- (g) A utility may classify incidental services as regulated. If an incidental service is classified as regulated, the utility shall clearly identify the service as an incidental, and account for the revenues, expenses, assets, liabilities, and ratebase associated with that service as if that service is regulated.
- (h) For cost assignment and allocation purposes, the value of all transactions from the Colorado utility to an unregulated affiliate, financially-related entity, division, or service shall be determined as follows:
 - (I) If the transaction involves a service provided by the utility pursuant to tariff, the value of the transaction shall be at the tariff rate.
 - (II) If the transaction involves a service or function that is not provided pursuant to a tariff, the value of the transaction shall be the higher of the utility's full accounting cost or market price. Market price shall be either the price charged by the utility or if this cannot be determined, the lowest price charged by another person for a comparable service.
 - (III) If the transaction involves an asset, the value of the transaction shall be the higher of net-book cost or market price. Market price shall be either the price charged by

the utility or if this cannot be determined, the lowest price charged by another person in the market for a comparable asset, where such prices are publicly available.

- (i) For cost assignment and allocation purposes, the value of all transactions from an unregulated affiliate, financially-related entity, division, or service to the Colorado utility shall be determined as follows:
 - (I) If the transaction involves a service provided pursuant to tariff, the value of the transaction shall be the tariff rate.
 - (II) If the transaction involves a service or function that is not provided pursuant to a tariff, the value of the transaction shall be the lower of the full cost accounting cost or the market price. Full cost accounting, in this circumstance, shall be the cost that would be incurred by the utility to provide the service internally. Market price shall be either the price charged by the supplying entity or if this cannot be determined, the lowest price charged by other persons in the market for a comparable service, where such prices are publicly available.
 - (III) If the transaction involves an asset, the value of the transaction shall be the lower of net-book cost or market price. Market price shall be either the price charged by the entity or if this cannot be determined, the lowest price charged by another person in the market for a comparable asset, where such prices are publicly available.
- (j) If it is impracticable for the utility to establish a market price pursuant to paragraphs (g) or (h), the utility shall provide a statement to that effect, including its reasons in its full cost accounting study. Parties in a Commission proceeding retain the right to advocate alternative market prices pursuant to paragraphs (g) and (h).
- (k) For cost assignment and allocation purposes, the value of all transactions between regulated divisions within a utility shall be determined as follows:
 - (I) If the transaction involves a service provided by the utility pursuant to tariff, the value of the transaction shall be at the tariff rate.
 - (II) If the transaction involves a service or function that is not provided pursuant to a tariff, the value of the transaction shall be at cost.

3503. Cost Assignment and Allocation Manuals.

- (a) Each utility shall maintain on file with the Commission an approved indexed cost assignment and allocation manual.
- (b) Public Service Company of Colorado and Aquila, Inc. shall each initially file an application for approval of its cost assignment and allocation manual within 180 days of the effective date of these rules. These utilities shall also simultaneously file a full cost accounting study reflecting the assignment and allocation methods detailed and described in its manual.
- (c) All other utilities shall each initially file an application for approval of its cost assignment and allocation manual within 360 days of the effective date of these rules, or such other time to accommodate a staggered filing schedule if the Commission establishes one. These utilities shall also simultaneously file a full cost accounting study reflecting the cost assignment and allocation methods detailed and described in its manual.
- (d) Following the initial approval of its manual, the utility shall file an updated cost assignment and allocation manual in each rate case proceeding where revenue requirements are determined or every five years, whichever is earlier. Each utility shall also file an updated manual with its filing in all other rate case proceedings (such as proceedings setting rates by class-of-service, rate rebalancing), unless the utility has filed a manual within the preceding 15 months.
- (e) Whenever a utility files for approval of an update to its cost assignment and allocation manual as a result of (d) above, the utility shall also simultaneously file a full cost accounting study reflecting the assignment and allocation methods detailed and described in its manual.
- (f) The utility may, at its discretion, file an application seeking Commission approval of updates to its cost assignment and allocation manual at any time. At the time of such application, the utility shall simultaneously file a full cost accounting study reflecting the cost assignment and allocation methods detailed and described in its manual.
- (g) Each utility shall include the following information in its manual:
 - (I) A listing of all regulated and unregulated divisions within the utility, and a listing of all affiliates and financially-related entities.
 - (II) A listing and description of the regulated and unregulated services offered by the utility and its affiliates, financially-related entities, and divisions as well as a classification of each such service as regulated or

unregulated; and an identification if the service is provided by a multiple-jurisdictional operation. The utility shall provide a description in sufficient detail to identify the types of costs associated with the service and shall identify how the service is offered to the public. If a service is offered subject to tariff, the utility may identify the tariff and the tariff section that describes the service offering in lieu of providing a service description.

- (III) A listing of the revenues, expenses, assets, liabilities, and ratebase items by amount and Uniform System of Accounts (USOA) account number that the utility proposes to include in its revenue requirement for Colorado jurisdictional services including those items that are partially allocated to Colorado as well as those items that are exclusively assigned to Colorado.
 - (IV) A detailed description showing how the revenues, expenses, assets, liabilities, and ratebase by account and sub-account are assigned and allocated to a service or division, along with a detailed description of the methods used to perform the assignment and allocations.
 - (V) A description of the basis for how the assignment or allocation is made. If the provisions of Rule 3502(d) (e.g., FERC, SEC or other state regulatory bodies) apply, the utility shall cite the applicable requirements.
 - (VI) Any additional information specifically required by Commission order.
- (h) If the utility offers a service that is a combination of regulated and unregulated services (i.e., a bundled service), the utility shall classify, allocate, and assign the regulated and unregulated cost components separately.
 - (i) A utility may treat certain transactions as confidential if the terms of the transaction are not final as of the date the utility files its application for approval of the manual. In such a case, the utility shall generically identify the transactions and provide in its manual the expected date the transaction will be complete. On or before that date, the utility shall file an update with the Commission and other parties to the manual approval proceeding either providing the information required by this rule, amending the date, or stating that the transaction will not occur.
 - (j) Each utility shall retain all records and supporting documentation for its cost assignment and allocation manuals, including all records and supporting documentation for any associated full cost accounting study, until a subsequent manual is approved by this Commission.

3504. Full Cost Accounting Study.

- (a) The utility shall submit its full cost accounting study in both electronic and paper format simultaneously with filing its cost assignment and allocation manual for all Colorado jurisdictional divisions and services. If the cost assignment and allocation manual is filed in connection with a rate case, the study shall be based on the same test year used in the utility's rate case filing. The utility's full cost accounting study shall include revenues, expenses, assets, liabilities, and ratebase amounts in order for the Commission to determine if all appropriate revenues, expenses, assets, liabilities, and ratebase amounts have been appropriately assigned and allocated, and to determine the utility's compliance with principles established in Rule 3502. For each assignment and allocation the utility shall:
- (I) Identify the revenues, expenses, assets, liabilities, and ratebase by account description and number;
 - (II) Identify revenues, expenses, assets, liabilities, and ratebase amounts for affiliates, related-financial entities, divisions, and services in sufficient detail to verify the assignment and allocation method used to assign and allocate costs to Colorado divisions and services is accurate and consistent with the utility's cost allocation and assignment manual methodology; and,
 - (III) Provide the test year total dollar itemized amounts of revenues, expenses, assets, liabilities, and ratebase assigned and allocated to each Colorado division and service; the itemized amounts assigned to the Colorado utility for regulated services; the itemized amounts assigned to the Colorado utility for Colorado unregulated services; the itemized amounts assigned to other jurisdictions; and the itemized amounts assigned to other services.

3505. Disclosure of Unregulated Goods and Services.

Whenever a utility engages in the provision or marketing of unregulated goods or services in Colorado that are not subject to Commission regulation, and the utility's name or logo is used in connection with the provision of such unregulated goods and services, there must be conspicuous, clear, and concise disclosure to prospective customers that such unregulated goods and services are not regulated by the Commission. Such disclosure to prospective customers shall be included in all advertising or marketing materials, proposals, contracts, and bills for unregulated goods and services, regardless of whether the utility provides such unregulated goods or services directly or through a division, affiliate, or financially-related entity.