

3005. Records.¹

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

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

- (d) Cost assignment and allocation manuals, full cost accounting studies, and updates required under rules 3503(b), (c), and (g).

COST ASSIGNMENT AND ALLOCATION FOR GOODS, SERVICES, AND BUSINESS OPERATIONS

3500. Special Definitions. The following special definitions apply only to rules 3501 - 3505:

- (a) "Affiliate" means a subsidiary of a public utility, a parent corporation of a public utility, a joint venture organized as a separate corporation or partnership to the extent of the individual public utility's involvement with the joint venture, or a subsidiary of a parent corporation of a public utility.
- (b) "Cost assignment and allocation manual" means the document filed by a utility that describes, explains, and reflects the policies, procedures, and cost assignment and allocation and methods the utility uses to segregate and account for financial elements between regulated and unregulated services, between state, interstate, and multiple-state services and operations, and between jurisdictional services and operations.
- (c) "Financial elements" means all balance sheet and income statement items including but not limited to revenues, expenses, assets and liabilities.
- (d) "Full cost accounting" means the costs derived from the process of assigning and allocating the total historical costs recorded in the utility's accounting books and records to individual products, services, or business operations using cost accounting,

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

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

engineering, and economic standards. Full cost accounting also includes a return on investment.

- (e) "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.
- (f) "Unregulated service" means any service, product line, business operation, or other business activity that is not exclusively offered as a public utility service as defined in Title 40, Articles 1 to 7, C.R.S., and is not regulated by the Commission.

3501. Overview. The purpose of these rules is to help ensure that utilities do not use ratepayer funds to subsidize unregulated, non-jurisdictional activities, in accordance with 40-3-114 C.R.S. These rules also establish assignment and allocation principles to assist the Commission in establishing just and reasonable rates. In order to promote that purpose, these rules specify information that utilities must provide to the Commission. These rules apply to utilities in the following areas:

- (a) Assignment and allocation of financial elements of the utility's operations including:
 - (I) Financial elements incurred in Colorado that pertain to non-Colorado operations or services such as FERC jurisdictional, other state jurisdictional or unregulated services.
 - (II) Financial elements incurred outside Colorado that pertain to Colorado jurisdictional operations.
 - (III) Financial elements assigned or allocated between divisions in the same utility, e.g., electric, gas, and steam, and between services within the division, e.g., gas transportation, gas distribution.
 - (IV) Financial elements assigned or allocated between the utility's regulated and unregulated services within Colorado, such as appliance repair.
- (b) Transactions between the utility, its affiliates, and other financially related entities.

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 service, business operation, jurisdiction, or customer class causes a cost to be incurred or benefits from a cost, that cost shall be directly assigned to that service,

business operation, jurisdiction, or customer class to the greatest extent practicable.

- (b) If more than one service, business operation, jurisdiction, or customer class causes a cost to be incurred or benefits from a cost, that cost shall be fairly and equitably allocated among the services, business operations, jurisdictions, or customer classes that cause the cost to be incurred or benefit from the cost to the greatest extent practicable. The following principles shall apply to such allocations (listed in descending order of required application):
- (I) Cost causation. All services, business operations, jurisdictions, or customer classes that cause a cost to be incurred shall be allocated a portion of that cost.
 - (II) Variability. If a direct correlation exists between changes in a cost and changes in the quantities sold of the service that cause the cost to be incurred, that cost shall be allocated based upon those relationships.
 - (III) Traceability. A cost may be allocated using a measure that has a logical or observable correlation to the services, business operations, jurisdictions, or customer classes that cause the cost to be incurred. For example, labor intensive customer operations and service-related investments may be allocated based on customer-service labor, using appropriate time-reporting methods.
 - (IV) Benefit. Services, business operations, jurisdictions, or customer classes that benefit from a cost shall be assigned or allocated a portion of that cost.
- (c) The utility or any party may advocate another cost 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.
- (d) If a utility is subject to the Public Utility Holding Company Act of 1935, (PUHCA), or is subject to a Joint Operating Agreement (JOA) under FERC or PUHCA, or is subject to other applicable Securities and Exchange Commission (SEC) or FERC authority, and if the utility believes that specific cost assignments or allocations are under the jurisdiction of such 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.

- (e) A utility may classify unregulated services as regulated in accordance with the following principles if the service is regulated by another agency (i.e., another State PUC or the FERC) and where there are agency-accepted ratemaking principles or methods for treating 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 clearly identify the service in its manual, and account for the financial elements associated with that service as if that service is regulated.
- (f) A utility may classify unregulated services as regulated if revenues associated with the service do not exceed \$50,000 annually, or such other amount established by the Commission considering the nature and frequency of the particular service. If an incidental unregulated service is considered regulated, the utility shall clearly identify the service as an incidental unregulated service, and account for the financial elements associated with that service as if that service is regulated.
- (g) For cost assignment and allocation purposes, the value of all transactions from the utility to an unregulated service, division, affiliate, or financially related entity 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 operation 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 rate. Market rate shall be either the rate charged by the utility or if this cannot be determined, the lowest rate 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 rate. Market rate shall be either the rate charged by the utility or if this cannot be determined, the lowest rate charged by another person in the market for a comparable asset, where such rates are publicly available.
- (h) For cost assignment and allocation purposes, the value of all transactions from an unregulated service, division, affiliate, or financially related entity to the 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 operation 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 rate. Full cost accounting, in this circumstance, shall be the lower of either the full cost accounting cost of the supplying entity or the cost that would be incurred by the utility to provide the service internally. Market rate shall be either the rate charged by the supplying entity or if this cannot be determined, the lowest rate charged by other persons in the market for a comparable service, where such rates 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 rate. Market rate shall be either the rate charged by the entity or if this cannot be determined, the lowest rate charged by another person in the market for a comparable asset, where such rates are publicly available.
- (i) If the utility cannot establish a market rate 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 rates pursuant to paragraphs (g) and (h).

3503. Cost Assignment and Allocation Manuals.

- (a) Each utility shall maintain on file with the Commission an approved cost assignment and allocation manual which explains how it assigns, segregates, and accounts for financial elements among and between the utility's services and operations, when the utility has transactions as outlined in Rule 3501.
- (b) Each utility shall file an application for approval of its cost assignment and allocation manual within 180 days of the effective date of these rules, or such other time to accommodate a staggered filing schedule if the Commission establishes one. The utility shall also provide a full cost accounting study with its cost assignment and allocation manual.
- (c) The utility shall file an updated cost assignment and allocation manual in each rate case proceeding where revenue requirements are determined (*i.e.*, phase I). Each utility shall also file an updated cost assignment and allocation manual with its filing in all other rate case proceedings (such as phase II, rate rebalancing), unless the utility has previously filed such within

15 months. The utility shall provide a full cost accounting study with its cost assignment and allocation manual. In addition, the utility may, at its discretion, file an application seeking Commission approval of updates to its cost assignment and allocation manual at any other time.

- (d) Each utility shall include the following information in its cost assignment and allocation manual:
- (I) A listing of all regulated and unregulated divisions and operating units within the utility, and a listing of all affiliates and other financially related entities.
 - (II) A listing and description of the regulated and unregulated services offered by the utility, its divisions, operating units, affiliates, and other financially related entities; a classification of each service as regulated or unregulated; and an identification if the service is provided by a multiple state or 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 financial elements the utility proposes to include in revenue requirement that are not used exclusively for operations in Colorado, including those that are partially assigned to Colorado by amount and Uniform System of Accounts (USOA) account number.
 - (IV) A detailed description showing how the financial elements for a service or operation are assigned or allocated in part or whole to each account and sub-account in the USOA used by the utility, along with a detailed description of the method used to perform the assignment or allocation.
 - (V) The basis for how the assignment or allocation is made. If the provisions of Rule 3502(d) (e.g., PUHCA, JOA, FERC, or SEC) apply, the utility shall cite the applicable requirements.
 - (VI) Any additional information specifically required by Commission order.
- (e) If the utility offers a service that is a combination of regulated and/or unregulated services (i.e., a bundled service), the utility shall classify the regulated and unregulated cost components separately.

- (f) 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.
- (g) Upon request from the Commission, a utility shall file updates to its cost assignment and allocation manual.
- (h) The utility or any party shall be permitted to advocate alternative assignment or allocation methods during a proceeding in which a new manual or manual updates will be approved.
- (i) 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. The purpose of the full cost accounting study is to show specific cost assignments and allocations resulting from the utility's actual operations, in accordance with its cost assignment and allocation manual. The utility shall submit a full cost accounting study in both electronic and paper format with its cost assignment and allocation manual. 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 financial elements in sufficient detail in order for the Commission to determine if all appropriate financial elements have been appropriately assigned or allocated, and to determine the utility's compliance with principles established in Rule 3502. For each assignment and allocation the utility shall:

- (a) Identify the financial elements by description and account number,
- (b) Identify the services, affiliates, or related financial entities using the financial elements, and
- (c) For each service and operation, provide the test year total dollar amount of each financial element; the itemized amount assigned to the Colorado utility for regulated services; the itemized amount assigned to the Colorado utility for Colorado unregulated services; the itemized amount assigned to other regulatory jurisdictions; and the itemized amount assigned to other unregulated services.

3505. Disclosure of Unregulated Goods and Services. Whenever a utility engages in the provision or marketing of goods or services that are not subject to Commission regulation, or 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 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 goods or services directly or through a division, subsidiary, or affiliate.