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March 2, 2020

Regulatory Commission of Alaska  
 701 West Eighth Avenue, Suite 300  
 Anchorage, Alaska 99501

Subject: Tariff Advice Letter 37-733  
 Formula Rate Mechanism

Dear Commissioners:

The tariff filing described below is transmitted to you for filing in compliance with Sections 3 AAC 48.200 - 3 AAC 48.430 of the Alaska Administrative Code, and as required by Order U-18-043(15):

<u>Tariff Sheet</u>		<u>Cancels Sheet</u>		<u>Schedule or Rule Number</u>
<u>Number</u>	<u>Revision</u>	<u>Number</u>	<u>Revision</u>	
1	Seventh	1	Sixth	Index
95	Original			Section 40
96	Original			Section 40
97	Original			Section 40
98	Original			Section 40
99	Original			Section 40
100	Original			Section 40
101	Original			Section 40
102	Original			Section 40
103	Original			Section 40
104	Original			Section 40
105	Original			Section 40

Order U-18-043(15) requires Cook Inlet Natural Gas Storage Alaska, LLC (“CINGSA”) to “file a proposed formula rate methodology as a new tariff advice filing....”<sup>1</sup> This filing fulfills that requirement. Once approved by the Commission, the provision will apply to rates for all CINGSA customers. CINGSA has four customers receiving Firm Storage Service (“FSS”) and it currently has Interruptible Storage Service (“ISS”) agreements with six entities.

<sup>1</sup> Order No. U-18-043(15) *Order Resolving the Revenue Requirement and Cost-of-Service Issues and Required Filings*, dated August 16, 2019 at page 90.

## I. BACKGROUND

In Order U-18-043(15), the Commission stated the following:

Due to CINGSA's rapidly depreciating rate base, CINGSA's rates are misaligned with its revenue requirement within a few years of completing a rate case and implementing new rates. We believe, as did at least one party at the hearing, that CINGSA and its FSS customers could benefit from the stability of formula rates.<sup>2</sup>

The Order further requires CINGSA to file "a proposed formula rate methodology... ahead of CINGSA's next revenue requirement study [to] allow adequate time for us to review CINGSA's proposal and issue a decision so that CINGSA can include rates based on an approved formula rate structure in its next revenue requirement study."<sup>3</sup>

In preparing its proposal, CINGSA has reviewed the Commission's Simplified Rate Filing ("SRF") Procedures for Electric Cooperatives (3 AAC 48.700-790) and Simplified Pipeline Tariffs regulations (3 AAC 48.450-490), other instances of the use of formula rates in Alaska.<sup>4</sup> In drafting the provision, CINGSA has used language and concepts from the Commission's SRF regulations. CINGSA's proposal also includes concepts that are part of the Alaskan formula rate examples it reviewed.

## II. OVERVIEW OF PROPOSED PROVISION

The proposed formula rate mechanism ("FRM") provision provides for an annual revision ("FRMAR")<sup>5</sup> to the Company's Rate Schedules FSS and ISS that take into account changes to CINGSA's rate base (including the effects of depreciation), changes in expenses, and changes in billing units.<sup>6</sup> Each FRMAR will be filed as a separate tariff advice letter (Section 40.1.B, Sheet 95). It is based upon data, with certain adjustments,

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<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

<sup>4</sup> Including Alaska Electric Light and Power Company's Amendatory Agreement with Princess Cruise Lines, Ltd. approved in U-10-026(2), the various Bradley Lake Hydroelectric Project agreements, and the Kenai Beluga Pipeline, LLC ("KBPL") automatic rate adjustment for throughput changes as provided for in the settlement agreement accepted by the Commission in P-16-004(4).

<sup>5</sup> Unless CINGSA files, or is in the midst of a General Rate Case as set out in Section 40.1.C, Sheet 95).

<sup>6</sup> Capitalized terms not defined in this letter are defined either in CINGSA's tariff or in the proposed Section 40.

from the preceding calendar year, referred to as the Test Year (Section 40.1.B, Sheet 95 and Section 40.2.M, Sheet 96).

The FRM provides that CINGSA shall calculate an annual, Facility-Wide revenue requirement (“RR”) that will adjust applicable rate schedules prospectively as set in the provision. The Company shall request recovery of its total revenue requirement and shall include schedules showing the computation of any adjustments (Section 40.3.A, Sheet 97). The annual RR shall be calculated according to the following formula:

$$RR = OM + DEP + OT + RI + IT$$

Where:

- OM = all reasonable and necessary operation and maintenance expenses incurred during the Test Year adjusted for known and measurable changes and prepared consistent with the rate making treatments approved or accepted in the Company’s last Concluded General Rate Case (Section 40.3.B, Sheet 97).
- DEP = depreciation and amortization expense calculated on end-of-Test-Year balances at the depreciation and amortization rates approved by the Commission (Section 40.3.C, Sheet 98).
- OT = taxes other than income tax from the Test Year adjusted for known and measurable changes, and prepared consistent with the rate making treatments approved or accepted in the Company’s last Concluded General Rate Case (Section 40.3.D, Sheet 98).
- RI = return on prudently incurred investment calculated as the Company’s return (weighted average cost of capital) multiplied by the Test Year rate base (Section 40.3.E, Sheet 98).
- Rate of return shall be the weighted average cost of capital approved or accepted in the Company’s last Concluded General Rate Case.
  - Rate base shall be calculated using the simple annual average (“SAA”) of the related accounts.<sup>7</sup>
- IT = income tax for the adjusted Test Year, adjusted for known and measurable changes, and prepared consistent with the rate making treatments approved or accepted in the Company’s last Concluded General Rate Case (Section 40.3.F, Sheet 100).

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<sup>7</sup> SAA is computed as the sum of the Test Year beginning balance and the Test Year ending balance, divided by 2 (Section 40.2I, Sheet 96). The beginning and ending balances are reported in the FERC Form 2 portion of CINGSA’s Annual Operating Report to the Commission.

Once the annual RR has been determined, it shall be allocated between fixed costs and variable costs using the same cost classification ratios that were approved or accepted in the Company's last Concluded General Rate Case (Section 40.3.G, Sheet 101). FSS Storage Service Rates shall be calculated consistent with the methodology approved or accepted in the Company's last Concluded General Rate Case. The billing units used shall be the approved FSS Agreement contract quantities (CWQ and MSQ) in effect during the period in which the rates will likely be in effect, and actual volumes from the Test Year (Section 40.3.H, Sheet 101). ISS Storage Service Rates shall be calculated consistent with the methodology approved or accepted in the Company's last Concluded General Rate Case (Section 40.3.I, Sheet 102).

The provision provides that the FRMAR filing shall include Schedules of Test Year Normalized Operating Revenues and Expenses, Rate Base, Weighted Cost of Capital, and Normalized Test Year Revenue Requirement in similar format to the first four pages of the Company's 275(a) schedules and its Derivation of Rates provided in Docket U-18-043. It shall also include a schedule and explanation of all normalizing, pro forma, annualizing and known and measurable change adjustments, a schedule in a format similar to the relevant portion of RCA Form 201 that delineates total operating revenue, and certain major expense categories, and provides an explanation for each of the items that increased or decreased more than 10 percent from the previous 12-month period and other supporting schedules (Section 40.4, Sheet 103).

A copy of the FRMAR filing will be provided to Commission Staff ("Staff"), the FSS Customers and the Office of the Attorney General, Regulatory Affairs & Public Advocacy Section ("RAPA") at the time it is filed with the Commission, along with any Excel worksheets with working formulas used to create the schedules, exhibits or attachments in the filing (Section 40.5, Sheet 104).

### III. SECTION BY SECTION DISCUSSION OF THE PROPOSAL

The revisions to the index and specific tariff sections being added in this filing are discussed below:

**Index (Sheet 1)**: A listing is being added for new Section 40 – Formula Rate Mechanism.<sup>8</sup>

**Section 40.1 – Application (Sheet 95)**: A new proposed section for the formula rate mechanism ("FRM") provides for an annual revision ("FRMAR") to CINGSA's Rate Schedules FSS and ISS. The annual revision shall be filed by tariff advice letter on or before June 15 of each year beginning in 2023, unless CINGSA files, or is in the midst of, a General Rate Case.

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<sup>8</sup> The updated Index Sheet is presented in this filing as if the Index Sheet submitted with the Partial Stipulation in Docket U-19-025 has been approved.

**Section 40.2 – Definitions (Sheets 95 and 96):** A new proposed section providing meanings for specific defined terms used in Section 40. The terms defined are 3 AAC, AS, Facility-Wide, FERC, Surcharge, Well Maintenance, Filing Date, Final Order, FRM, FRMAR, General Rate Case, Concluded General Rate Case, General Rate Case Application, Simple Annual Average, SAA, Test Year, Uniform System of Accounts, and USoA.

**Section 40.3 – FRMAR Calculation (Sheets 97-102):** The new proposed section sets out, in detail, the calculation of the revenue requirement (“RR”) and the recalculation of the FSS and ISS rates. As discussed in more detail above in the “Overview of Proposed Provision” section, a RR is determined for the Test Year, allocated to fixed and variable costs, and then rates are derived. The RR is to be prepared consistent with the rate making treatments approved or accepted in the Company’s last Concluded General Rate Case. Known and measurable adjustments shall be limited to those changes that have occurred prior to the Filing Date, are more than likely to continue through the period in which the rates will be in effect, and are consistent with the Commission’s precedent regarding known and measurable adjustments.

**Section 40.4 – FRMAR Schedules (Sheet 103):** This new proposed section discusses what items besides the tariff advice letter are to be included in a FRMAR filing. Like an Electric Cooperative SRF, a FRMAR filing will include: (1) a schedule of adjustments; (2) a schedule of all amortized expenses; and (3) a schedule that lists operating revenue and amounts for major expense categories (similar in format to a portion of RCA Form 201). The operating revenue and major expense categories will be compared to the prior year and an explanation provided for each of these items that increased or decreased more than 10 percent from the previous 12-month period. The filing will also include the tariff sheets showing the revisions to CINGSA’s rates.

**Section 40.5 – FRMAR Evaluation and Review Procedures (Sheet 104):** The new proposed section provides that:

- A copy of the FRMAR filing will be provided to the Commission Staff, the FSS Customers, and RAPA at the time it is filed with the Commission, along with any Excel worksheets with working formulas used to create the schedules, exhibits or attachments in the filing.
- CINGSA will provide the Commission Staff with any requested clarifications or additional data as the Commission Staff reviews and evaluates the FRMAR filing.
- CINGSA shall work in good faith to promptly and fulsomely answer all questions raised by the Commission Staff. If CINGSA and the Commission Staff agree that any calculations or schedules in the FRMAR filing should be revised, CINGSA shall promptly file with the Commission the resulting adjusted rate calculations, revised tariff sheet, or revised FRMAR schedules.

**Section 40.6 – FRMAR Effective Date and Further Proceedings (Sheet 105):** A new proposed section that discusses the effective date of FRMAR filings and further proceedings if a FRMAR filing is suspended. Since a FRMAR filing is filed as a tariff advice letter, it follows the timelines set out in AS 42.05.411, becoming effective at the end of the 45-day notice period, unless suspended. If the Commission suspends a FRMAR filing, the Company shall have the option to supplement its filing and request, and convert the filing to a General Rate Case Application. The section sets out the timelines for CINGSA to provide notice of supplementing and the deadline to supplement.

#### **IV. NEWSPAPER PUBLIC NOTICE PUBLICATION WAIVER**

3 AAC 48.280 states that the Commission may prescribe an additional means by which a tariff filing is noticed to the public. CINGSA is electronically serving copy of this filing to all of its customers with effective FSS or ISS agreements, which meets the requirements of 3 AAC 48.280(2). It will also be providing notice of this filing on its website, with a link to the entire filing. CINGSA requests the Commission consider this noticing sufficient, and not require newspaper publication of the public notice.

#### **V. CONCLUSION**

CINGSA believes that the FMR it proposes addresses the concerns the Commission articulated in Order U-18-043(15) when it instructed this provision be filed. CINGSA also believes the provision is balanced and will produce just, fair and reasonable rates for it and its Customers.

CINGSA respectfully requests that the Commission approve these revisions and the new provision at the conclusion of the 45-day standard notice and review period.

Sincerely,

Cook Inlet Natural Gas Storage Alaska, LLC



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Attachments:  
Certificate of Service  
Revised Tariff Sheets as Stated

CERTIFICATE OF SERVICE

I hereby certify that on March 2, 2020 a true and correct copy of TA 37-733 CINGSA's Formula Rate Mechanism proposal was served via e-mail on the following:

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