



Section 5.0 – Cost of Service Rates

April 15, 2024

1 **5.0 Cost of Service Rates**

2 Under a Cost of Service ("COS") model, a regulated entity is permitted to set rates that allow it the
3 opportunity to recover the costs of its regulated operations, including a fair rate of return on its investment
4 devoted to regulated operations.

5 This principle is consistent with what is expected to occur in a competitive market, where the price of
6 services trends towards the cost of providing them, including a fair return.

7 **Cost of Service Methodology**

8 For this application, a new cost-of-service model was prepared in partnership with Concentric Energy
9 Advisors. Liberty used the same cost of service principles and processes used in previous years for the
10 purpose of the 2024 COS study.

11 **Revenue Requirement**

12 The revenue requirement provided in the 2024 Budget was used for the purpose of determining the
13 distribution rates in the 2024 COS Model.

14 **Allocators**

15 Allocators used in the 2024 COS study are consistent with those provided in support of the 2023 Rate
16 Application, with the exception of three internal allocators specific to the 2024 Study. The 'O&MxGas'
17 allocator used in the 2024 study allocates working capital expenses among rate classes based on their
18 share of total O&M expenses. The 'PropertyTax' allocator used in the 2024 study allocates property tax-
19 related expenses among rate classes based on their share of total net plant. The 'Pre_Tax' allocator used
20 in the 2024 study allocates income tax-related expenses among classes based on their share of total
21 rate base.

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23 A copy of the Allocators used in the 2024 COS model is attached in *Schedule 5.1 - Allocators*.



- 1 The results of the 2024 COS study can be found in *Schedule 5.2 - Cost of Service Model Data*.
- 2 • COS Schedule 1 represents the results of the class cost of service study for 2024. The first two pages
3 provide summary information of the results. The first section provides details on rate base, O&M
4 expenses, and current revenues by class (lines 1-17). The next section (lines 18-32) details the
5 required revenues at equal rates of return (if each class's return was the same as the overall
6 system return) with line 31 providing the revenue deficiency or excess for each class. The last
7 section (lines 33-43) shows the proposed revenues by class against the revenue requirement and
8 the resulting rate of return at proposed rates, followed by a comparison of the relative rates of
9 return and parity ratios in lines 46-51. The remaining pages of Schedule 1 provide a summary of
10 the functional rate base, the functional revenue requirement and unit costs allocated to each rate
11 class.
 - 12 • COS Schedule 2 provides the detailed account inputs. This schedule provides the functionalization,
13 classification and allocation steps for each account and component of the total revenue
14 requirement.
 - 15 • COS Schedule 3 provides the allocation of each account and revenue requirement component
16 by classification and by rate class. The results of classification step for each account and
17 component of the total revenue requirement allocated to each of the three classifications (1)
18 Demand, (2) Customer, and (3) Energy.
 - 19 • COS Schedule 4 provides a summary of the external allocation factors used in the 2024 COS study.
20 A description of the allocators used in the 2024 COS study is provided in *Schedule 5.1 - Allocators*
21 and further support for the allocators is provided in *Schedule 8.10 - Allocators Support*.
 - 22 • COS Schedule 5 provides a summary of the internal allocation factors used in the 2024 COS study.
23 A description of these allocators is also provided in *Schedule 5.1 - Allocators*.
 - 24 • COS Schedule 6 provides a summary of the revenue expected from current and proposed rates
25 along with a comparison of the revenues to the class cost of service study targets with the
26 resulting amounts presented in the columns 'Variance \$' and 'Variance %'. This schedule also
27 compares the class revenue to cost ratios and rates of return under present and proposed rates.
 - 28 • COS Schedule 7 provides a further description of the Concentric COS model used in developing
29 the 2023 COS study.

