Q. Does Stone and Webster agree that embedded cost studies have also been controversial in terms of methodology and rate implementation? (Cost of Service Evidence, page 17, lines 1 to 3)

A. Embedded cost studies are not controversial in the same way that marginal costs are controversial as to measurement and application. Embedded cost of service studies are founded on the premise that there are three bases for cost causation: customer-related costs; energy-related costs; and demand-related costs; and, in general, each customer class is allocated a share of each of these components on the basis of their incurrence of those costs in relation to the other customer classes. The principal area of controversy involves the allocation of demand costs that are jointly used by all customer classes. The methodology to be used may involve considerations as to, e.g., whether or not to use a minimum distribution system; whether energy should be a component in the allocation; or how many monthly coincident peaks to use. While there is no single correct answer, suitable methodologies are most often converged on by examining characteristics of the system load profile and the types of generating units installed. The basic methodologies utilized in embedded or fully-allocated cost of service studies have survived for decades virtually unchallenged as the standard to assess whether costs allocated to customer classes are equitable and non-discriminatory.

Cost-based rate design is not in itself controversial. Controversy arises when factors other than costs are taken into account. These may include considerations such as: competitive, social welfare and political concerns, conservation, and whether, e.g., value-of-service should play a role. In attempting to balance many of these objectives trade-offs may be required;

for example, the need to sell versus the need to conserve. It is in attempting to balance the interests of all the stakeholders that that rate design has been characterized as an art as well as a science.