

1 Q: Re: Brattle Group, Embedded and Marginal Cost of Service Review, May 3,  
2 2019, page 62 (66 pdf)

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4 As a result, an important step in a marginal COS study is to  
5 reconcile the resulting rates and revenue requirement with the  
6 embedded COS study. There are different ways to reconcile the  
7 differences between the authorized revenue requirement and  
8 the implicit revenue requirement that results from marginal  
9 cost calculation. For example, the approach used in California  
10 is to increase or decrease the marginal cost rate by the same  
11 proportion for each class to reconcile the revenue requirements.

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13 Please provide links to or copies of documents detailing the approach used in  
14 California to increase or decrease the marginal cost rate by the same  
15 proportion for each class to reconcile the revenue requirements.

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17 A. a) See Section 3: A Recent History of Commission Approaches to Marginal Cost  
18 Based Revenue Allocation and Rate Designs (p. 12), which describes the  
19 history of the Equal Percent of Marginal Cost (EPMC) methodology usage in CA:  
20 <https://static1.squarespace.com/static/54c1a3f9e4b04884b35cfef6/t/5b4302531ae6cf2d20080224/1531118171862/PD+PGE+2017+GRC.PDF>  
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23 b) Examples of specific California utilities that incorporate the EPMC  
24 methodology into ratemaking:  
25 a. SCE, Phase 2 of 2018 General Rate Case:  
26 [http://www3.sce.com/sscc/law/dis/dbattach5e.nsf/0/81421FFDD00ED00F8825814F006D515D/\\$FILE/A1706xxx-SCE-02-2018%20GRC%20Ph2-Marginal%20Cost%20and%20Sales%20Forecast%20Proposals.pdf](http://www3.sce.com/sscc/law/dis/dbattach5e.nsf/0/81421FFDD00ED00F8825814F006D515D/$FILE/A1706xxx-SCE-02-2018%20GRC%20Ph2-Marginal%20Cost%20and%20Sales%20Forecast%20Proposals.pdf)  
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29 i. “The Commission deviates from setting rates equal to marginal  
30 costs by necessity, in order to establish overall utility rates that  
31 recover a utility’s authorized revenue requirements (which usually  
32 amount to values higher than marginal costs of service). **The**  
33 **Commission has customarily used the equal percent of marginal**  
34 **cost (EPMC) methodology to assign the utility’s authorized**  
35 **revenue requirements in proportion to its marginal cost**  
36 **revenues”** (p. 6)  
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38 b. PGE, 2017 General Rate Case Phase II, available at:  
39 [https://drpwg.org/wp-content/uploads/2017/07/PGE-09-v1\\_GRC-2017-PhII\\_Test\\_PGE\\_20161202\\_396470.pdf](https://drpwg.org/wp-content/uploads/2017/07/PGE-09-v1_GRC-2017-PhII_Test_PGE_20161202_396470.pdf)  
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- i. “Regulatory revenue requirements generally do not equal the revenues that would result from pricing output at marginal cost. To overcome the revenue shortfall, **the Commission has adopted a scaler applicable to the marginal cost revenues as necessary to meet revenue requirements relying on the Equal Percentage of Marginal Costs method (EPMC)**” (p. 1-18).