



# Cost Allocation Principles

Foundational Concepts for Discussing  
Equity in Rates

# Disclaimer

- Not official position of the PRC, not even necessarily my positions, intended to ask questions and cause thoughtful consideration.

# Just and Reasonable

- NMSA 1978 Section 62-8-1 “Every rate made, demanded or received by any public utility shall be just and reasonable.”
- A rate is “just and reasonable” when it balances the investor's interest against the ratepayer's interest. Att'y Gen. v. New Mexico Pub. Regul. Comm'n, 2011-NMSC-034, ¶ 13, 150 N.M. 174, 258 P.3d 453, 457 (internal citations omitted)

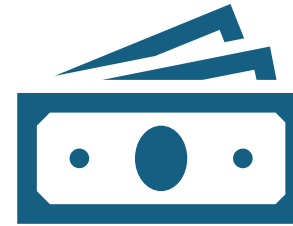
# Used and Useful

- “[a] property must either be used, or its use must be forthcoming and reasonably certain; and it must be useful in the sense that its use is reasonable and beneficial to the public”
- Pub. Serv. Co. of New Mexico v. New Mexico Pub. Regul. Comm'n, 2019-NMSC-012, ¶ 21, 444 P.3d 460, 469–70 (Internal citations omitted)

# Cost Causation



**Cost causation involves attributing costs to those customers or classes who cause them to be incurred and benefit from them.**



**Cost allocation based on cost causation is not only an attribute of, but is the linchpin of, a sound rate structure.”**

In the Matter of Sw. Pub. Serv. Companys Application for: (1) Authorization to Establish the Voluntary Solar\*connect Cmty. Program (Solar\*connect) & Enter into A Purchased Power Agreement for the Purchase of 1.98 Mw of Nominal Solar Capacity & Associated Energy for Solar\*connect; (2) Approval of the Proposed Methodology for Calculating & Annually Adjusting the Solar\*connect Rate; & (3) Authorization to Flow Through All Solar\*connect Costs, No. 18-00308-UT, 2019 WL 4345308, at \*31 (Aug. 21, 2019)

# Prohibition on Discriminatory Rates

- **62-8-6. Discrimination.**
- No public utility shall, as to rates or services, make or grant any unreasonable preference or advantage to any corporation or person within any classification or subject any corporation or person within any classification to any unreasonable prejudice or disadvantage. No public utility shall establish and maintain any unreasonable differences as to rates of service either as between localities or as between classes of service.