



How MCR Helped an Electric Utility Develop and Implement a New Cost of Service Model

BACKGROUND

The electric IOU Public Service Company of New Mexico (PNM) faced a number of challenges with its cost of service model. Intervenors struggled to understand the model during rate cases, slowing down the regulatory process. The model wasn't user friendly and was difficult to master. In addition, it was proprietary, so if changes were required, PNM had to go back to the vendor to implement them. A new cost of service model was needed to meet the utility's internal needs and make the regulatory process more efficient. So PNM reached out to MCR, both for our customizable cost of service model and our specialized expertise.

APPROACH

MCR's Cost of Service Tool (COST™) is unique to the industry and features transparent formulas, an automated import tool, and an integrated rate design module. Further, the COST™ license allows for companies to take full control over the model once implementation is complete if they desire.

PNM chose to retain MCR to implement the COST™ model and assist them with their first rate case after implementation. Our team developed a 12-week implementation timeline to adapt the modular COST™ model for PNM, using the company's prior cost of service study as a guide. This assured them that when the COST™ model was finalized it would fit within the regulatory guidelines required by their jurisdictional authority. Throughout the implementation process, MCR compared the COST™ model with prior studies to ensure that the outputs of the two models were similar. Where differences were found, we worked with PNM to determine how they would be addressed in the new model.

“Our existing cost of service model was not user friendly, so we hired MCR to implement a cost of service model to make it easier for all parties in a rate case to run scenarios. **MCR has awesome modeling and analytical skills**, their project management and organization is great, and they never missed a deadline.”

—Abraham Casas
Senior Pricing Analyst, PNM

For greater efficiency, the COST™ model's rate design module was implemented at the same time as the cost of service portion. MCR worked with the PNM team to adapt their inputs to the COST™ model's data import tool, so that data in subsequent runs of the model could be inputted quickly and accurately. Throughout the process, MCR held frequent check-in meetings with our clients, keeping them informed, soliciting their feedback, and providing them with hands-on training to ensure that they were familiar with the model and could run it on their own. Documentation was also provided, customized to PNM's version of the COST™ model.

During the rate case, PNM asked that MCR work on an accelerated timeline, developing the COST™ model for the requested test year and designing the proposed rates in just one month. Our team updated the COST™ model and its attached rate design module with current and prospective data. We ran multiple studies for PNM and worked with our clients and their leadership team to develop multiple rate design scenarios. We assisted in drafting testimony and worked with our clients to prepare all the exhibits needed for filing and handled subsequent data requests once the case had commenced. We also provided training for the intervenors in the case, enabling them to develop alternative studies and rate designs within the same model.

RESULT

MCR's COST™ model was accepted by PNM's commission, and the sole intervenor's objections to the model were rejected. PNM called the COST™ model "very easy to use," adding, "We were able to pull the numbers seamlessly and easily." Intervenors found the models easy to understand as well. Once trained, our clients had a few questions for clarity, but they were able to make the necessary changes on their own.

PNM has now retained MCR for a subsequent rate case. We updated the COST™ model with new enhancements that have been added since their first rate case. Using the training provided by MCR, PNM is completing the COST™ model and its rate design module on their own this time, calling on our team to assist as needed.



For further information, please contact:

Cindy Menhorn

VP, Regulatory Services

724-244-5333

cmenhorn@mcr-group.com

mcr-group.com/regulatory