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**TRADE AND INVESTMENT REFORM
SUPPORT PROGRAM IN AZERBAIJAN**

Cost of Service Allocation Methods

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COST OF SERVICE

BASIC STEPS IN COST OF SERVICE:

ESTABLISH TOTAL COST OF SERVICE /REV. REQ.

FUNCTIONALIZE COSTS

MAKE DIRECT COST ASSIGNMENTS

DEVELOP COST ALLOCATORS

ALLOCATE JOINT COSTS

COST OF SERVICE METHODS

BASIC STEPS IN COST OF SERVICE:

- **ESTABLISH TOTAL COST OF SERVICE**
- **PERFORM A REVENUE REQUIREMENTS STUDY**
- **FUNCTIONALIZE COSTS**
- **- SEPARATE COSTS INTO PRODUCTION, TRANSMISSION AND DISTRIBUTION FUNCTIONS**
- **- FUNCTIONALIZE ADMINISTRATIVE AND GENERAL COSTS AND OTHER JOINT COSTS**
- **MAKE DIRECT COST ASSIGNMENTS**
- **- IDENTIFY CERTAIN COSTS THAT BELONG TO SPECIFIC SECTORS OF THE MARKET.(For example: Specifically assignable substations or street lighting expenses)**

COST OF SERVICE METHODS (Contd.)

- **ESTABLISH COST ALLOCATORS AT VARIOUS LEVELS OF SYSTEM**
- **ANALYZE SALES DATA**
- **ANALYZE AVAILABLE DEMAND DATA**
- **CUSTOMER METERED DATA**
- **LOAD RESEARCH**
- **SUBSTATION LOAD DATA**
- **ALLOCATE JOINT COST (OR COSTS NOT DIRECTLY ASSIGNED)**

COST OF SERVICE METHODS

ALLOCATION METHODS

- **DEMAND BASES**
 - **SYSTEM COINCIDENT PEAK DEMAND**
 - **NONCOINCIDENT MAXIMUM DEMAND**
- **ENERGY BASIS (Kwh)**
- **CUSTOMER BASES**
- **REVENUE**

Allocation Methods

Cost type

1. Production Capacity
(sometimes 75:25)

2. Production Variable

3. Transmission Capacity

4. Distribution Substations

5. Distribution Lines

Allocation Basis

Contribution to Coincident system
Peak Demand

Energy Requirements of Class

**Non-coincident Peaks on Points of
Delivery from Grid**

**Non-coincident Peaks of distribution
Maximum demands on distribution
system**

Cost Allocation (contd.)

6. Line Transformers

Max demands of low voltage customers

7. Customer costs
(such as metering,
billing, customer service,
sales, etc.)

Weighted customer Basis
(e.g res.=1,comm.=10)

8. Revenues

Actual received from each class

9. Direct Assigned Costs

10. Allocate Joint Costs

Final Step

- **COMPUTE CLASS UNIT COSTS BY DEMAND AND ENERGY**
- **GIVE THE RESULTS A SANITY CHECK**
- **DON'T OVER OR UNDERESTIMATE THE VALUE OF THE STUDY**



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THANK YOU !