ALJ/md

Decision 84 03 019 MAR 7 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SIERRA PACIFIC POWER COMPANY for authority to implement its energy cost adjustment Clause.	Application 83-09-09 (Filed September 6, 1983; amended November 14, 1983)
And Related Matters.	Application 83-09-10 (Filed September 6, 1983) Application 83-09-11 (Filed September 6, 1983)

John J. Gezelin and James D. Salo, Attorneys at Law, for Sierra Pacific Power Company, applicant.
James S. Rood, Attorney at Law, and Jeffrey P. O'Donnell, for the Commission staff.

O P I N I O N

In these applications, Sierra Pacific Power Company (Sierra Pacific) seeks authority to adjust its electric rates.

Sierra Pacific is engaged in public utility electric operations in California and Nevada and is also engaged in public utility gas and water operations in Nevada. Sierra Pacific's principal California operations are in the Lake Tahoe area.

In Application (A.) 83-09-09 Sierra Pacific seeks authority to revise its Energy Cost Adjustment Clause (ECAC) billing factors (ECACBF) in compliance with prior Commission decisions. According to the amended application, the last change in ECACBF authorized by Decision (D.) 83-08-007 provided an underrecovery of approximately $5,292,000 for the 12-month period commencing January 1, 1984. Sierra Pacific requests us to authorize ECACBF as of January 1, 1984 which will refund $1,091,985 from its balancing account over a

12-month period. Applicant asserts that as a result of the application no increase in its net income will occur.

Filed with A.83-09-09 is Sierra Pacific's report showing the reasonableness of its fuel and purchased power transactions during the record period of July 1, 1982 through June 30, 1983.

In A.83-09-10 Sierra Pacific states it established a Conservation Financing Adjustment (CFA) balancing account as directed by D.82-07-096 effective July 21, 1983. That decision ordered Sierra Pacific and other utilities to file initial CFA applications at the time of their next fuel cost adjustment filing. A.83-09-10 was filed concurrently with A.83-09-09 in compliance with that decision. Sierra Pacific's proposed CFA will collect approximately $416,286 in recorded and estimated expenses. Sierra Pacific's proposed CFA rate is 0.098¢ per Kilowatt hour (kWh). The proposed rate is composed of the following:

8% loan program	0.021¢/kWh
Residential Conservation Service (RCS)	0.077¢/kWh

Sierra Pacific was granted authority to file its Electric Rate Adjustment Mechanism (ERAM) by D.83-04-066, dated April 21, 1983. By A.83-09-11, the proposed ERAM will collect approximately $229,757 in revenues resulting from an underrecovery of authorized base rate revenues for the month of May, June, and July of 1983. The amortization would occur over the 12-month period ending December 31, 1984.

Summary of Decision

This decision authorizes the following increases in revenues:

ECAC:	$1,739,000
AER:	2,899,000
ERAM:	391,000
CFA:	374,000
Total	$5,403,000

This decision also finds that Sierra Pacific's fuel and purchased power transactions in the review period were prudent and reasonable.

Public Hearing

The three applications were consolidated and public hearing was held before Administrative Law Judge (ALJ) Mallory in San Francisco on November 14 through 17, 1983. The matters were submitted subject to the filing of concurrent closing briefs which were received December 6, 1983. Evidence was presented by representatives of applicant and the staff. There was no public participation.

Annual Reasonableness Review

Applicant's reasonableness report and supporting documentation were found to be reasonable and acceptable by the staff, except as discussed. Agreement was reached between the staff and applicant on many issues. Only those issues which were not resolved are discussed in this opinion.

Applicant presented the testimony of three witnesses to support the reasonableness of its fuel and purchased power transactions during the record period. A separate report (Exhibit 7) was prepared by staff witnesses David K. Wong and Martin Homec of the Fuels and Operations Branch (FOB) of the Utilities Division.

Purchased Power Adjustment

Mr. Wong testified that Sierra Pacific purchased energy from Utah Power and Light (UPL) as economy energy in the review period when it could have purchased that energy as firm energy at a lower cost. Wong recommended a disallowance of $698 plus interest. The witness testified under cross-examination that he examined monthly summary sheets, but did not examine the daily and hourly reports which underlie the power purchases in question. Sierra Pacific witness Franklin testified that her review of hourly and daily dispatch records permitted her to verify that in every case economy energy was purchased in the review period only during times in which Sierra Pacific was receiving the maximum amount of firm energy available under contract with UPL. The witness also testified that some of the energy encompassed by the staff recommendation reflected so-called Mt. Wheeler losses which are not dispatchable energy since they represent a billing adjustment to compensate for transmission line losses on energy wheeled by Sierra Pacific to a rural electric cooperative.

The staff witness testifying on this issue indicated that insufficient time was available to him to make the detailed review of daily and hourly dispatch records. The rebuttal testimony of Sierra Pacific has clarified the points raised by the staff witness and that testimony shows that the proposed staff adjustment would not be appropriate. The proposed staff adjustment will not be adopted.

Valmy Heat Rate

As part of its historical review, the staff believes that Sierra Pacific should improve the heat rate at Valmy Unit 1.

Valmy Unit 1 is a coal-fired plant jointly owned and operated by Sierra Pacific and Idaho Power Company (IPC). Although Sierra Pacific operates the plant, it does not have sole control. Use of IPC's portion is determined by IPC. The heat rate, therefore, is a function of decisions made by both IPC and Sierra Pacific. Testimony from Sierra Pacific witnesses indicates that it will make certain physical improvements which will increase the efficiency of the plant and, consequently, improve the plant heat rate. These changes indicate to the staff that Sierra Pacific is attempting to comply with its recommendation.

FOB proposed no specific target heat rate for Valmy I or any standards or goals for increasing plant efficiency. In response to the request of the ALJ for a specific performance standard, Supervising Utilities Engineer Jeffrey O'Donnell, the project manager for these applications, testified that FOB is aware of Commission interest in performance standards for power plants such as the Valmy unit. However, FOB is not recommending setting such a standard at this time. The reasons are:

1. The Valmy plant is only about a year and a half old. It is not a mature plant. Therefore, adequate data on which to base an incentive system does not yet exist.

2 Although the Valmy unit is a base load unit for Sierra, its other owner does not appear to use it as a full time base load unit.

3. A coal plant incentive plan for Southern California Edison Company's (Edison) Mohave and Four Corners coal plants has been in effect for about two years. It is currently being evaluated. It appears to be in need of modification or improvement.

FOB will consider an incentive plan in about two years when more data is available on the Valmy plant and the Edison Coal Plant incentive plan. FOB will have to analyze the feasibility, costs, and benefits of such a plan prior to making a recommendation.

As Sierra Pacific contemplates the planned plant improvements will improve plant efficiency and thereby improve the plant heat rate, and as no specific performance standards are proposed in this proceeding for the operation of the Valmy plant, no additional directive to Sierra Pacific on its Valmy plant heat rate is necessary at this time. The staff directive to applicant will not be adopted.

Requests for Reports

The review conducted by FOB raised several questions concerning plant operations. The staff brief states that it was confronted on many issues with lack of data, even though Sierra Pacific was cooperative and provided the data requested by the staff. The staff believes subsequent reasonableness review analyses by the staff could be facilitated if certain data were readily at hand; therefore, FOB made the following recommendations, each of which would require the filing of a report by August 1, 1984:

1. Sierra Pacific should work with FOB to develop a viable method of monitoring power purchases.

2. Sierra Pacific should analyze the effectiveness of measures it has taken to reduce loop flow, including phase shift transformers, and should quantify the results.

3. Sierra Pacific should explain, quantify and justify the contingencies that its fuel inventory is to guard against.

4. Sierra Pacific should conduct an incremental load test of its Tracy and Fort Churchill power plants to determine the difference in efficiency between burning oil and natural gas.

5. Sierra Pacific should quantify the exceptions to its oil versus gas fuel choice criteria.

Sierra Pacific presented rebuttal evidence in opposition to each of the above recommendations.

Request 1

Witness Homec had full access to the data and logs which reflect Sierra Pacific's economy energy decisions on an hourly basis. Witness Homec spot checked summaries of these data and found no deviations from Sierra Pacific's standards. The witness was concerned that these spot checks might not be representative of all decisions, thus, requesting Report 1. Sierra Pacific argued that the staff Request 1 is lacking in factual support or basis; therefore, it should be denied.

At this point we should discuss the Commission's purpose in requiring reasonableness reviews of a utility's historical energy purchase and use decisions. Our purpose is to ensure that, in the time of high energy costs, the utility's decisions produce the lowest long run cost to the ratepayer. The Commission recognizes that its staff does not have the resources to monitor daily the actions of the regulated utilities. Therefore, in its annual review our staff must exercise judgment. It must first review the utility's standards and practices, selecting for more concentrated study those areas of a utility's day-to-day operations which would yield a greater loss (or benefit) to the ratepayer if different decisions had been made. Our staff, not having unlimited resources, will not have the ability to inspect and review every elective process made by the utility in the review period. In many arees it must rely upon spot checks, such as here. When those spot checks show that accepted standards or operating practices have been followed, a further in-depth study is not warranted.

In this proceeding staff has made spot checks of the in-depth analyses developed by Sierra Pacific at the staff's request. As those spot checks showed no deviations, it would be reasonable to postulate that the balance of the company's decisions in this area were equally free from error, and no further study should be required of Sierra Pacific. Moreover, the area of inquiry would not seem productive for further in-depth review if it would produce no result which would have a major final impact on Sierra Pacific's California ratepayers. For those reasons, staff Request 1 will be denied.

Request 2

The testimony of the staff witness indicated that he had not had time before hearing to gain complete understanding of Sierra Pacific's general operations, the loop-flow problems encountered by Sierra Pacific, and the manner in which phase-shift transformers operate.

In response to the staff Request 2, Sierra Pacific presented evidence designed to show the purposes for which the phase-shifters were installed. It showed that, as it is located in the center of the Western System's Coordinating Council (WSCC) regional transmission system, loop-flow adversely affects its operations by reducing transmission capacity.[1] As part of an agreement between all members of WSCC, Sierra Pacific agreed to install phase-shifters to reduce loop-flow. The installation of the phase-shifters resulted in benefits to Sierra Pacific in its daily operations, as well as reducing loop-flow on the WSCC system. Its Cal Sub unit alone saves Sierra Pacific (and its ratepayers) over $5,000,000 per year, against an initial purchase cost of approximately $1,500,000.

Sierra Pacific has made a sufficient demonstration on this record that the installation and operation of phase-shift transformers was prudent and in the best interest of its rate payers. The further reporting requested by the staff appears to be unnecessary and will not be required.

Request 3

While this request was sponsored by Witness Homec, it is directly related to the test year fuel oil inventory amount recommended by Staff Witness Wong. This issue will be discussed in another part of this opinion.

Request 4

In this request staff seeks to have Sierra Pacific conduct tests at two fossil fuel plants which burn fuel oil and natural gas to determine the relative efficiency of oil and gas.

Sierra Pacific opposes the requested testing on the basis that the expense of conducting the test far outweighs any potential gains. Sierra Pacific's witness testified that it recently concluded tests which indicated that fuel oil is about 4 to 5% more efficient than gas. Sierra Pacific indicated that the results were not very

---

[1] Loop flow is the inadvertent or nonscheduled flow of electricity that circulates through a transmission line system, thus reducing the capacity of the system to transmit the scheduled flow.

accurate due to the sensitivity of fuel measurement. To reschedule the test to reach a more conclusive result would require the expenditure of up to $1,000,000. Sierra Pacific pointed out that the two plants will probably be used as spinning reserve during the test year and, at that low usage, would only burn gas.

It is quite clear on this record that the potential benefits of the requested testing would be far outweighed by the cost, especially in consideration that the entire cost of the testing would be charged to California ratepayers. It is our purpose in conducting annual reasonableness reviews to decrease the cost of electricity to California ratepayers rather than to increase such costs. Request 4 will be denied.

Request 5

Sierra Pacific, in the documents filed with A.83-09-09 and in the testimony of its witnesses presented in the reasonableness phase of the proceeding, explained its oil versus gas fuel choice criteria and the application of those criteria in specific situations which arose in the review period.

While Witness Homec found nothing wrong with the application of the criteria in the review period, he requested that Sierra Pacific identify and quantify all possible exceptions to its criteria used to determine whether to burn oil or gas in its generating units.

Again, it would appear from this record that any benefits which could be gained would be outweighed by the time and effort necessary to prepare the report. Therefore, the request will be denied.

While we are denying staff's request for additional reports due August 1, 1984, we wish to emphasize that the staff must have access to adequate data to perform future reasonableness reviews. We expect that Sierra Pacific will provide all such data in response to staff data requests so that future reviews may proceed to hearing with all parties in possession of all the information necessary to support their respective positions.

ECAC-AER

Sierra Pacific's ECAC application requests a total ECAC increase of $5.7 million, and its AER application seeks a decrease of $89,000. A separate report (Exhibit 6) was prepared by staff witnesses Pamela Thompson and Cornell Hill of the Revenue Requirements Division (RRD). The staff recommended an ECAC increase of $1.9 million and an AER increase of $3.1 million. The bulk of the staff's recommended lower ECAC rate increase and its AER increase flows from the Commission's change in the ECAC/AER ratio of 98%-2% to the present 78%-22% of estimated fuel and purchased power costs, adopted in D.83-08-048 in OII 82-04-02

Accounting

The staff witnesses made four adjustments to the balancing account to correct accounting errors, including use of a franchise and uncollectible rate of .0128 and a net-to-gross multiplier of 1.6224 as used by the Commission in D.83-04-066 in Sierra's last general rate case. Applicant stipulated to those adjustments.

Energy Forecast

The staff made the following recommendations which applicant accepted:

1. The staff sales projection is 21,523 MWh less than that of applicant.
2. The staff used the 78/22% ECAC/AER allocation ordered by the Commission in D.83-08-048.
3. The staff's projected energy loss is 12.67% rather than the 13.10% applicant estimated.
4. The staff's recommended energy use by applicant is 0.63% rather than its estimate of 1%.
5. Because of 1, 3, and 4 above, the staff recommended reduced gas/oil generation and Valmy buyback purchases.

The following issues remain in dispute:

Heat Rates

The staff applied recorded heat rates to the test period for its analysis. Sierra Pacific's forecast heat rate for its Valmy plant used the historic heat rate adjusted for a coal inventory loss. Staff argues that the utility has not shown that its numbers properly include fuel losses, nor how much of the difference between its and the staff's numbers is due to fuel losses. Applicant argued that the staff witness, on cross-examination, acknowledged that he was unfamiliar with the calculation of heat rates, and that he had no information to refute applicant's testimony about the adjustments to the heat rate for the forecast period.

It appears that these staff adjustments and related recommendations concerning improvements in the Valmy plant heat rate discussed supra, resulted from the difference in data presented in the application from later data made available by applicant. Staff asks that we adopt its position for that reason. Applicant opposes the staff recommendations because it believes it has made an adequate showing which staff has not rebutted.

We believe the applicant's showing is sufficient and will adopt applicant's forecast.

Diesel Oil

The staff assumed that diesel oil will cost approximately 90¢ per gallon during the test period, whereas applicant projects a cost of $1.00 per gallon. Applicant projected 1984 usage of diesel oil only at its Valmy plant. It based its projection on the 1983 average cost of 90¢ per gallon for fuel oil used at Valmy, and added an inflation factor of 12%. Staff based its projection on applicant's last recorded purchase price of fuel oil and added an inflation factor of 1.769%.

As diesel oil prices appear to have leveled off and will not escalate materially in the test year, we will accept the escalation factor of 1.769% and purchese price proposed by the staff.

Valmy Buyback

Sierra Pacific owns the Valmy installation jointly with IPC. Through its agreement with IPC, Sierra can "buy back" more than its own share of power produced by the installation. It made such purchases each month during the review period at an average cost of 23.33 mills/kWh.

Sierra Pacific based its forecast of the availability and cost of Valmy buyback energy on average year conditions. Testimony of applicant's witnesses showed that the review period costs of Valmy buyback power was lower than prior years because IPC was competing with excess energy available from other energy producers in the northwest. Those producers had greater than ordinary amounts of economy energy available for sale because of the extraordinary hydro conditions in the northwest and because of the reduced usage of electrical energy by aluminum mills and other industrial customers resulting from the poor economy in that region. Sierra Pacific's witnesses explained that its record year purchases were at IPC's cost, and that the price of Valmy buyback energy can vary upward from the minimum price when less competing economy energy is available.

Staff contends that the price of Valmy buyback energy is directly related to the price that IPC pays for cheap hydroelectric power from the northwest, and it based its projected costs of Valmy buyback energy on 1983 recorded data, escalated for inflation. Staff argued that local rainfall totals in the Northwest in the fall of 1983 are more than twice normal; thus, it would expect that the same conditions would prevail throughout 1984 that were found in the record period.

While we cannot predict with certainty the current weather and economic conditions that will occur in 1984, it appears to us at this time that the record period conditions would more likely occur than average year conditions. Therefore, we will adopt the staff forecast.

Fuel Oil Inventory

Sierra Pacific requests inclusion of carrying costs for 224,270 barrels of fuel oil, the amount it presently has on hand. Staff recommends that the company recover carrying costs on 223,100 barrels, a difference of 1,170 barrels. The staff figure is based on the actual average inventory that the company carried during the last 12-month period. The ALJ requested a clarification of the staff position on this issue and a policy statment by witness O'Donnell was introduced in Exhibit 13. The staff does not find that the present inventory amount, 224,270 barrels is unreasonable. Staff contends that applicant has shown no justification for an increase in the record period amount of 223,100 barrels by 1,170 berrels in the test period, as applicant expects no oil burn during the test period and as the oil is only kept on hand for emergencies.

D.83-08-48 in OII 82-04-02 allows only the carrying cost on the "adopted" level of inventory to be recovered through the AER (page 21, D.83-08-48). Staff interprets this as the amount the utility actually needs for operations, or the 223,100 figure used by the staff. Therefore, the issue is the interpretation of the term "adopted" in D.83-08-48. Staff argued that if "adopted" means the amount needed for forecast operations, then 223,100 barrels should be used; however, if "adopted" means an amount reasonable to have on hand even if not actually required for operations, then applicant's estimate of 224,270 barrels should be used for both the AER and ECAC revenue requirements.

The reasons for determining an adopted fuel oil inventory level are: (1) to establish the minimum level of fuel oil reserve needed to ensure that no curtailment of service will occur in the event of the long term unavailability of alternate boiler fuel (natural gas), and (2) to ensure that the ratepayer does not bear the full carrying costs of excess oil inventory amounts. Applicant uses a 10-day supply as a measure of its minimum fuel oil reserve necessary to assure continued operation of its fossil fuel generation plants should gas supplies be curtailed, although it seeks a lesser amount (its current supply) in this proceeding. Applicant's witnesses testified that it is difficult to quantify its minimum oil inventory requirements. In establishing a 10-day supply as minimum it took into account the probability of a gas curtailment by its sole supplier, the events which possibly may cause such curtailment, the time period necessary to order and receive replacement quantities of low-sulphur fuel oil, and the location of possible suppliers of fuel oil on an emergency basis. As no potential supplier is located in Nevada, fuel oil probably would be obtained on the spot market from an out-of-state source and transported by truck or rail to Nevada.

Sierra Pacific's witnesses testified that its current supply is less than a 10-day supply because it is uneconomic to purchase the small quantities necessary to bring its inventory up to the 10-day supply level and because it believes by waiting it may achieve a lower price. Applicant indicated that it should not be required to comply with the staff recommendation that it submit by August 1, 1984 a study quantifying the emergency and operational contingencies on which it bases its oil inventory requirements, as it has explained in general terms on this record the criteria underlying its fuel oil purchase decisions, and because it would find it difficult to quantify these contingencies.

Our review of the record indicates that we should clarify and reaffirm our rule concerning the burden of proof in reasonableness proceedings. In D.92496, where we instituted an annual review of reasonableness of energy and fuel costs, we stated the following:

> "Of course, the burden of proof is on the utility applicant to establish the reasonableness of energy expenses sought to be recovered through ECAC. We expect an affirmative showing by each utility with percipient witnesses in support of all elements of its application, including fuel costs and plant reliability."

This statement conforms to the fundamental principle of public utility regulation that the burden rests heavily upon a utility to prove it is entitled to rate relief. It is not the job of the Commission, its staff, any interested party, or protestant to prove the contrary. (Suburban Water Co., (1963) 60 CPUC 768, rev. denied; SoCal Gas,(1960) 58 CPUC 57; So. Counties Gas Co., 58 CPUC 27; Citizens Utilities Co., (1953) 52 CPUC 637.) Unless Sierra Pacific meets the burden of proving, with clear and convincing evidence, the reasonableness of all the expenses it seeks to have reflected in rate adjustments, those costs will be disallowed (In re Southern Counties Gas Co., (1952) 51 CPUC 533).

In this proceeding the rule-of-thumb determination by Sierra Pacific that a 10-day supply of fuel oil is its minimum fuel oil inventory requirement does not meet the burden of proof of reasonableness which we deem appropriate. Therefore, we will adopt staff's proposal. As it is applicant's responsibility to meet the burden of proof on this issue, we see no need to direct applicant to produce the study it is reluctant to supply. However, again we caution applicant that it must bear the burden of proof in the next proceeding in which this issue arises.

TABLE 1

SIERRA PACIFIC POWER COMPANY
Calculation of ECAC Rate
January 1984 Through December 1984
(Dollars in Thousands)

Line	Item	
1	Current Fuels and Purchased Energy Costs	
2	Fuel Costs	
3	Diesel Oil	$ 0
4	Residual Oil/Natural Gas	18,258
5	Natural Gas Standby Charge	1,630
6	Coal/Diesel	20,508
7	Total Fuel Costs	40,396
8	Purchased Power Costs	
9	PG&E	6,645
10	UP&L	65,672
11	IPC	2,530
12	Economy	22,074
13	Cogeneration	23
14	Total Purchased Power Costs	96,944
15	Total Fuel and Purchased Power Costs	137,340
16	Franchise and Uncollectible Expense (F&U) (.0128 times Line 15)	1,758
17	Total Fuel and Purchased Power Costs Revenue Requirement	139,098
18	Amount Recovered Through ECAC (78% of Line 17)	108,496
19	Fuel Oil Inventory Requirement Per Table 2, Inclusive of FOU	1,260
20	Amount Recoverable Through ECAC (78% of Line 19)	983
21	Total Energy Related Costs Recoverable Through ECAC (Line 18 Plus Line 20)	109,479
22	ECAC Offset Rate (Cents per kWh) (Line 21 divided by total system sales of 3,617,852 MWh)	3.026¢
23	Less Balancing Rate	(0.275¢)
24	ECAC Billing Factor	2.751¢

TABLE 2

SIERRA PACIFIC POWER COMPANY
Calculation of AER
January 1, 1984, Through December 31, 1984
(Dollars in Thousands, Except as Noted)

Line	Item	(1) Diesel	(2) Residual
	Fuel Oil Inventory Billing Factor		
1	Average Inventory Level (Bbls)	8,120	223,100
2	Average Cost at January 1, 1984	$37.80	$25.96
3	Inventory Value	$307	$5,792
	Total (Col. 1&2 of Line 3)		$6,099
4	Authorized Rate of Return		12.57%
5	Carrying Cost of Fuel Oil Inventory		$767
6	Net to Gross Multiplier		1.6224
7	Subtotal (Line 5 x Line 6)		$1,244
8	Franchise and Uncollectible Expense (F&U) (.0128 x Line 7)		$16
9	Total Fuel Oil Revenue Requirement		$1,260
10	Amount Recoverable Through AER (22% of Line 9)		$277
11	Estimated Fuel and Purchased Power Expense Per Table - Including F&U		$139,098
12	Amount Recoverable Through AER (22% of Line 11)		$30,602
13	Total Energy Costs Recoverable Through AER (Line 10 + Line 12)		$30,879
14	Total System MWh Sales		3,617,852
15	Annual Energy Rate, (Cents per kWh)		0.854¢

ERAM

We authorized an ERAM mechanism for Sierra Pacific in its last general rate case, D.83-04-066, issued April 20, 1983. Under this decision, Sierra Pacific is to include proposed ERAM rates in its ECAC applications. Accordingly, Sierra Pacific requested implementation of an ERAM rate in this proceeding as this is the first ECAC proceeding subsequent to the issuance of D.83-04-066. In its application, Sierra Pacific projected an ERAM revenue requirement of $229,757. The staff in its Exhibit 6 originally recommended that this amount be increased by $32,315 to $262,072, which is based on:

Decreased ERAM Revenue Requirement for May, 1983	-$23,753
Net increased ERAM Revenue Requirement for period August 1983 - December 1983	47,428
Increase in related interest	8,640
Total Net Increase in ERAM Revenue Requirement	$32,315

The reason for the decrease of $23,753 is that, by D.83-04-065 and D.83-04-066, effective April 20, 1983, the Commission authorized an AER and base rate change for the company. However, billed revenues for May 1983 contained a mix of old and new rates, because under the company's procedures, a portion of kWh billed in May 1983 related to services rendered in April and billed at the old rates. The company, therefore, understated its May 1983 recorded base revenues for purposes of the ERAM calculation in that it applied the billed percentage of 42.2% to billed May revenues which were composed of old and new rates. To properly compute recorded revenues reflecting the new rates for May 1983, the staff applied the new AER and base rates to the billed kWh for May 1983. The product from the above calculation was then multiplied by the percentage of May's billed revenues that represent deliveries in May 1983. The remaining calculation methodology of Sierra Pacific remains the same.

The staff's revised calculation resulted in services-rendered revenues for May 1983, subject to ERAM, of $1,338,041 as compared to Sierra Pacific's computed recorded revenues of $1,314,288. The staff accordingly recommended that base revenues recorded for May 1983, booked to the ERAM balancing account, be increased by $23,753. We note that staff's methodology is consonant with our recent decisions treating the billing lag issue. For example, in deciding the first ERAM application before us, we declined to permit Applicant PG&E to collect additional revenues attributable to billing lag (D.82-04-117, issued April 28, 1982). Then, on February 1, 1984, in D.84-02-003, we stated that the fact that billing lag should not be recovered in ERAM proceeding applies equally to a SAM proceeding, in that billing lag is the same issue in either proceeding. To reiterate the view expressed in these decisions, we again state that longstanding ratemaking principles dictate that new rates become effective for services rendered, not sales billed, on or after the applicable date of a decision authorizing new rates.

The staff further recommended that the ERAM rate be based on the estimated balance as of January 1, 1984, in accordance with D.83-04-066. The application reflected the balancing account figure as of July 31, 1983. Applicant provided estimated recorded base revenues for the period August through December 1983. The staff then computed the monthly over- or undercollection to be recorded in the ERAM balancing account for this period, which resulted in an increased undercollection of $47,428. Subsequently, during the hearings, Sierra Pacific provided updated actual recorded base revenues for July, August, and September of $33,753, $20,602, and $117,049, respectively. The staff witness analyzed and accepted these figures. The result is an ERAM undercollection of $410,346, inclusive of related interest, rather than the undercollected figure of $262,072 reflected on the staff exhibit, and would require an additional ERAM revenue requirement of $148,274. Sierra Pacific stipulated to the staff adjustments which we adopted for the purposes of this proceeding. The adopted ERAM revenue requirement is $410,346. This produces an ERAM billing factor of .097¢/kWh applicable to all California sales (except street lighting).

Staff recommended modifications to Sierra Pacific's preliminary statement, Parts E and G, to properly reflect the ERAM revision dates adopted in D.83-02-076. These revisions, as set forth on pages IV-6 and IV-7 of Exhibit 9 in A.83-09-11 should be made.

Conservation Financing Adjustment

By D.82-07-096, we authorized Sierra Pacific to file for a CFA to recover recorded and estimated costs of its 8% loan program and Residential Conservation Service (RCS) audits. The present application is to implement that order. Our Energy Conservation Branch (ECB) staff reviewed Sierra Pacific's August 1, 1982 to July 1, 1983, RCS program expenses and found that the $191,805 cost to be high for 442 RCS audits in the utility service territory, but made no adjustment due to the startup and other costs reported by Sierra Pacific. Sierra Pacific's proposed 1984 RCS program is forecast to accomplish 400 audits for $129,224 at a cost of $323 per audit. The ECB staff recommended that we allow Sierra Pacific up to $60,000 to perform 400 RCS audits in 1984, a limit of $150 per audit. ECB also recommended that in addition to introducing the proposed RCS Class A "core audit" option to achieve its 1984 goals for a lower cost per unit, Sierra Pacific should offer "do-it-yourself" (Class B) audits to no-show customers.

There was little disagreement between the staff and applicant. The staff accepted the company's balancing account figure adjusted for later figures for the months of August through December 1983, and the company accepted the staff suggestion that it begin to supplement its 8% loan program with rebates to be offered its customers. Applicant took no issue with the staff accounting recommendations.

Cost Per Audit

The only contested issue is the projected cost of the RCS audit that is required by federal law. Applicant proposes to reduce its RCS audit costs by scaling the audit itself down to a "Core Audit" under which the company would only audit for those measures, such as ceiling insulation, that are almost always cost-effective. This will require approval by the California Energy Commission (CEC) as a departure from its state plan. We note that simplified Class A and alternative Class B audits have been approved by the CEC for other major utilities under our jursdiction. Indeed, Sierra Pacific expects a favorable response in view of CEC's apparent concern with the high cost of Sierra Pacific's audit program. Under the new "Core Audit" program, the company expects the time required for an audit to drop from roughly three hours to one hour. On cross-examination, the company witness was unable to state precisely what will be the decrease in costs flowing from this shorter audit but was of the opinion that the actual audit costs would range between $100 to $150. However, this does not include administrative and general costs, which the company contends, match almost dollar-for-dollar the actual cost of sending out an auditor under the present program in place. The witness was of the opinion that these costs should be somewhat lower, however, because of reductions in such items as recordkeeping.

Staff maintains that Sierra Pacific's cost is too high when compared to other companies. The staff witness testified that SoCal Gas has offered "streamlined" audits for $100 for the past year and Pacific Power and Light, also operating in a rural service area, offers audits for approximately $130. SDG&E's costs are only $80. The witness stated that Sierra's audit costs are the highest of any of the eight investor-owned utilities in California, including Southwest Gas, which has a service area similar to Sierra Pacific's.

The staff witness pointed out that some of the large discrepancies between Sierra's projected costs and costs of other utilities could result from differing methods of accounting for those costs. To offset this the staff witness provided an extra $50 cushion above the $100 he felt is a reasonable cost for these audits to accommodate these possible differences, as well as to account for company-specific specific administrative and travel costs.

Sierra Pacific contends that the sole basis for staff's recommendation of projected audit costs is that Sierra Pacific's $323 audit cost is too high because it is out of line with other California utilities. Sierra Pacific argues that staff did not demonstrate how Sierra Pacific's audit costs could be reduced without jeopardizing the program. It also argued that no showing was presented that the compared audit costs were determined using the same accounting methods as Sierra Pacific's, or that audits were conducted under comparable conditions. Sierra Pacific argued that its witnesses presented a complete analysis and support of the costs associated with its RCS program, and that such costs stand unrefuted on the record. As the RCS program is mandated by law, Sierra Pacific believes that it is entitled to recover the full costs associated with the program. Sierra Pacific further argued that it would have few options, if any, to deal with disallowed costs.

We are concerned with the level of Sierra Pacific's projected RCS audit costs. As indicated in staff testimony they are greatly in excess of the audit costs recorded by other utilities. However we also recognize that economies of scale may have some bearing on the cost levels at which different utilities are able to perform similar tasks. As Sierra Pacific's testimony pointed out, a large utility which performs thousands of audits on an annual basis should be able to develop a much smaller unit cost per audit than a small utility which performs three or four hundred audits on an annual basis.

We also recognize the physical difficulties encountered by Sierra Pacific in making the audits, especially since the highest demand for audits occurs during the winter months of November, December and January. In the past this weather impediment was compounded by the fact that Sierra Pacific's auditors were commuting from Reno to the Tahoe Basin, a roundtrip distance ranging from 100 to 120 miles. However, Sierra Pacific now maintains audit personnel at the north and south ends of Lake Tahoe, which should materially shorten travel time, and mitigate this problem.

A large portion of Sierra Pacific's California customers are recreational property owners, many of whom rent their properties during a portion of the year, and contact with such customers is difficult and costly. This is the so-called "no show" problem explored extensively on this record. We agree with our staff that Sierra Pacific should take immediate steps to mitigate this situation by offering alternative Class B audits to "no show" customers, in addition to the simplified Class A (core audit) proposal it is presently seeking to implement. Again, it is our belief that the CEC will join this Commission in reacting favorably to any shift in Sierra Pacific's emphasis to simplified Class A and alternative Class B audits, because such a shift will significantly reduce the presently excessive cost of Sierra Pacific's RCS audit program. Upon our review of this record, and in accordance with the preceding discussion, we believe that Sierra Pacific can further reduce its audit costs to be more in line with other California based utilities. Indeed we expect Sierra Pacific to tailor its program to do so. Therefore, we will accept our staff's forecast as more reasonable than that of Sierra Pacific, and we will adopt a projected RCS audit cost of $150 for the forecast period. This action is clearly in accord with the balancing account concept embodied in the CFA mechanism, under which utilities subject to our jurisdiction are made whole for certain forecasted expenses, subject to future reasonableness review.

It is important to note that the adopted $150 RCS audit level is still significantly above the recorded cost experienced by other utilities under our jurisdiction. But for the special circumstances evident in this record, we would have preferred to adopt a lower figure. Indeed we believe the adopted figure may still be on the high side, and we expect Sierra Pacific to work, under the guidelines outlined in this discussion, to further reduce these costs. We place Sierra Pacific on notice that we will closely scrutinize its audit costs in future rate proceedings to ensure that such costs are reasonable.

The following sets forth the calculation of the CFA test year revenue requirement:

1. 1984 Program Costs	
8% Financing	$37,077
RCS	60,000
Subtotal	$97,077
2. Recorded Costs - August 1, 1982 Through July 31, 1983	
8% Financing	$ 50,058
RCS	191,805
Subtotal	$241,863
3. Staff Estimate of Program Expenses August 1, 1983 to December 31, 1983	
8% Financing	$15,000
RCS	15,000
Subtotal	$30,000
4. Allowance for Franchise and Uncollectible Accounts	
Expense @ .0128	
8% Financing	$1,307
RCS	3,415
Subtotal	$4,722
Grand Total	$373,662
CFA Billing Factor	.093¢/kWh

Rebates

Sierra Pacific agreed with a schedule of rebates proposed by the staff and asked that a rebate program be authorized to become effective January 1, 1984, as an alternate to its 8% loan program.

Sierra Pacific does not now have a conservation rebate program, except that it will rebate to its customers the cost of a water heater jacket or a low-flow showerhead found in place when it conducts an audit under the RCS plan of the CEC. The ECB staff recommended that a rebate plan be established for other conservation measures. Sierra Pacific concurs in that proposal with the modifications agreed to at hearing.

The staff witness testified that other utilities have conservation rebate programs which have proven to be popular with customers who are not interested in a utility-sponsored conservation loan. Our ECB believes that a Sierra Pacific sponsored rebate program will offer its California customers a new type of incentive to install weatherization measures, thereby furthering Sierra Pacific's conservation efforts in California. According to the staff, a rebate option will assist Sierra Pacific to overcome some of the obstacles encountered in promoting conservation programs in its service territory by penetrating larger segments of the potential market than if only loans are offered.

An interim order approving the rebate program was presented for consideration at the Commission Conference of December 20, 1983. That order was withdrawn as the Commission indicated that it desired further information concerning the cost effectiveness of the proposed rebate program. Inasmuch as that information is not available on this record, the staff rebate proposal will be denied without prejudice to its renewal when informatioon concerning the cost effectiveness of the proposed rebate program is ready for presentation.

Findings of Fact

1. Sierra Pacific, by these applications seeks adjustments in its ECAC, AER, and ERAM billing factors and seeks the establishment of a CFA billing factor.

2. A.83-09-09 also constitutes its annual review of the reasonableness of Sierra Pacific's fuel and purchased power transactions during the record period of July 1, 1982 through June 30, 1983.

3. Sierra Pacific's purchases of economy energy from UPL in the review period were reasonable and the proposed staff adjustment is not reasonable.

4. Sierra Pacific is making physical improvements to its Valmy generation plant which improve its heat rate. Our staff will consider an incentive plan for Valmy plant operations for introduction in a later proceeding. In the interim period, no directive to Sierra Pacific to improve its Valmy plant heat rate is necessary.

5. Reports requested by staff as enumerated in the opinion, resulting from the staff's reasonableness review are not required, or would not be cost-effective.

6. Sierra Pacific's fuel and purchased power transactions in the record year were reasonable and no adjustments to recorded data are required.

ECAC-AER

7. Valmy plant heat rates proposed by Sierra Pacific for the forecast period are reasonable.

8. Diesel oil costs proposed by the staff for the forecast period are reasonable.

9. The staff's forecast of Valmy "buyback" energy in the forecast period is reasonable.

10. The adopted level of fuel inventory for the purpose of this proceeding is 8,120 barrels of diesel oil and 223,100 barrels of residual oil, as proposed by the staff.

11. The reasonable levels for the 1984 forecast period of:

a. Sales, company use, and losses;
b. Fuel prices;
c. Purchased power costs;
d. Energy mix;
e. Fuel consumption;
f. Fuel prices;
g. Heat rates; and
h. Oil inventory level,

are set forth in Appendix A.

12. The reasonable ECAC and AER billing factors and carrying costs of the adopted fuel oil inventory are set forth in Tables 1 and 2 of the opinion.

CFA

13. The reasonable forecast of RCS audit costs for 1984 is $150 per audit.

14. No showing has been made of the cost effectiveness of the conservation rebate program proposed as an alternate to Sierra Pacific's 8% loan program.

15. A CFA billing factor of 0.093¢ per kWh will be reasonable for the forecast period.

ERAM

16. A revised ERAM billing factor of 0.097¢ per kWh will be reasonable for the forecast period.

Conclusions of Law

1. The reports requested by staff as a result of its reasonableness review should not be required.

2. Sierra Pacific's fuel and purchased power transactions in the review period were prudent and reasonable. No adjustments to such costs should be made.

3. The proposed conservation rebate plan should not be adopted until a showing of its comparative cost effectiveness to the existing 8% loan program is presented.

4. Sierra Pacific should be authorized to establish the ECAC, AER, ERAM, and CFA billing factors found reasonable above. The increase of $5,403,000 resulting from the establishment of such billing factors is justified.

5. Sierra Pacific should be required to modify its Preliminary Statement, Parts E and G, to reflect ERAM revision dates adopted in D.83-02-076.

6. Inasmuch as the forecast period for which the revised billing factors are to apply began January 1, 1984, this order should become effective on date of issuance.

<u>O R D E R</u>

IT IS ORDERED that:

1. On or after the effective date of this order, Sierra Pacific Power Company is authorized to file with this Commission in conformance with General Order 96-A, revised tariff schedules reflecting the changes set forth in Appendix B to this order.

2. Concurrently with tariff filings made pursuant to Ordering Paragraph 1, Sierra Pacific shall revise its Preliminary Statement (Parts E and G) in accordance with Conclusion of Law 5.

This order is effective today.

Dated MAR 7 1984, at San Francisco, California.

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

Commissioner Leonard M. Grimes, Jr., being necessarily absent, did not participate.

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Joseph E. Bodovitz, Executive Director

APPENDIX A
Page 1

SIERRA PACIFIC POWER COMPANY

Adopted Forecasts of Sales, Company Use, Losses
And Total Outputs to Lines for 1984

Sales	MWh
Calif. Residential	233,477
Calif. Small Comm.	82,253
Calif. Large Comm.	64,473
Subtotal	380,203
Total Calif. Jurisdictional Sales	402,609
Company Use	22,792
Losses	463,829
Total Output to Lines	4,124,673

APPENDIX A
Page 2

SIERRA PACIFIC POWER COMPANY

Adopted Forecasts of Fuel Prices for 1984

Fuel	($/MMBtu)
Gas/Oil	
January-March	4.3202
April-September	4.4066
October-December	4.4947
Coal	
January-May	2.040
June-December	2.080
Diesel	
January-December	6.6031

APPENDIX A
Page 3

SIERRA PACIFIC POWER COMPANY

Adopted Forecasts of Purchased Power Cost for 1984

Idaho Power Company	
Firm, Elko Energy ($/MWh)	16.40
Demand ($/kW/mo.)	5.261
Valmy "Buyback"	
January-May ($/MWh)	23.80
June-December ($/MWh)	24.28
Economy	
January-February ($/MWh)	20.00
March-June ($/MWh)	15.00
July-December (/MWh)	20.00
Utah Power & Light	
Firm, Energy ($/MWh)	12.76
Demand ($/kW)	21.94
Economy	-
PG&E	
Demand Charge ($/kW)	9.15/kW less 1.5% Power Factor Discount
Customer Charge ($/mo.)	19.533
Spinning Reserve ($/kW)	65.80/kW less 2.74/MWh
Fuel Cost Adjustment Charge	-
Co-Generation	
Demand ($/MWh)	8.20
Energy Charge ($/MWh)	51.00
Economy Energy, Other (Same as IPC's Energy)	
January-February	20.00
March-June	15.00
July-December	20.00

APPENDIX A
Page 4

SIERRA PACIFIC POWER COMPANY

Adopted Forecasts of Energy Mix for 1984

Line No.		(MWh)
1	Gas/Oil Generation	
2	January	28,640
3	February	22,305
4	March	19,615
5	April	59,500
6	May	16,374
7	June	16,400
8	July	58,722
9	August	46,523
10	September	19,849
11	October	22,397
12	November	24,289
13	December	37,613
14	Subtotal	372,227
15	Economy (Valmy) for June	22,846
16	Subtotal	352,646
17	Total (L14+L15)	395,073
18	Total Output-to-Lines	4,124,673

APPENDIX A
Page 5

SIERRA PACIFIC POWER COMPANY

Adopted Forecasts of Fuel Consumption For 1984

	(MMBTu)
Coal	
January	881,505
February	824,000
March	880,650
April	313,120
May	826,060
June	852,840
July	881,680
August	881,680
September	852,840
October	880,474
November	851,810
December	881,680
Subtotal	9,808,339
Gas Oil	
January	318,534
February	248,076
March	218,158
April	661,759
May	182,112
June	182,401
July	653,106
August	517,429
September	220,761
October	249,099
November	270,142
December	418,332
Subtotal	4,139,909
Diesel (Valmy)	38,030
Total Fuel Consumption	13,986,278

APPENDIX A
Page 6

SIERRA PACIFIC POWER COMPANY

Adjusted Forecasts of Fuel and Purchased Power Costs

	($000)
Coal (Valmy)	$ 20,256
Gas/Oil	18,258
Gas Standby	1,630
Diesel Valmy	252
Subtotal Fuel	$ 40,396
IPC (Elko) Demand	947
IPC (Elko) Energy	1,583
PG&E Demand & Cust.	6,071
PG&E Spinning	574
UP&L Demand	46,074
UP&L Energy	19,598
Economy (Valmy)	8,490
Economy Other	13,584
Co-generation Dem.	3
Co-generation Eng.	20
Subtotal Purch.	$ 96,944
Total	$137,340

APPENDIX A
Page 7

SIERRA PACIFIC POWER COMPANY

Adopted Forecasts of Heat Rates,
Oil Inventory Levels for 1984

Heat Rates (Btu/kWh)	
Coal (Valmy)	10,342
Gas/Oil	11,122
Oil Inventory Level (bbl)	
Diesel Oil	8,120
Residual Oil	223,100

SPP's heat rates are calculated from data in Table 2, pages 1 and 2 of A.83-09-09.

Coal 9,808,339 MMBtu + Diesel 38,030 MMBtu = 9,846,369 MMBtu/952,100 MWh = 10,342 Btu/kWh.

Gas/Oil 4,693,608 MMBtu/422,000 MWh = 11,122 Btu/kWh.

(END OF APPENDIX A)

APPENDIX B
Page 1

SIERRA PACIFIC POWER COMPANY

Adopted Energy Cost Adjustment Clause Billing Factors

	Present	Adopted
ECACBF	$.02319	$.02751
Residential		
DS-Lifeline	.00486	.00456
D &..DM-Lifeline	.00439	.00456
In Excess of Lifeline	.03392	.04046
In Excess of 5,000 kWh	.05133	.06188
Time of Use (A-3)		
On	.02987	.03646
Mid	.02563	.03078
Off	.01324	.01418
ERAM	.00000	.00097
CFA	.00000	.00093
AER	.00134	.00854

APPENDIX B
Page 2

SIERRA PACIFIC POWER COMPANY

Adopted Energy Cost Adjustment Clause Billing Factors

	Base*	AER	ECAC	Total
Residential				
DS-Lifeline	$.04337	$.00854	$.00456	$.05647
DM-Lifeline	.04964	.00854	.00456	.06274
In Excess Lifeline	.04964	.00854	.04046	.09864
In Excess of 5,000 kWh	.04964	.00854	.06188	.12006
A-1 Rate	.05066	.00854	.02751	.08671
A-2 Rate	.03231	.00854	.02751	.06836
A-3 Rates				
On-peak	.02335	.00854	.03646	.06835
Mid-peak	.02335	.00854	.03078	.06267
Off-peak	.02335	.00854	.01418	.04607

*Base includes CFA of $.00093 and ERAM of $.00097.

LS/OL: Adjust on ¢/kWh basis for kWh in tariffs for CFA, ERAM, AER, and ECAC.

(END OF APPENDIX B)

The staff witness testifying on this issue indicated that insufficient time was available to him to make the detailed review of daily and hourly dispatch records. The rebuttal testimony of Sierra Pacific has clarified the points raised by the staff witness and that testimony shows that the proposed staff adjustment would not be appropriate. The proposed staff adjustment will not be adopted.

Valmy Heat Rate

As part of its historical review, the staff believes that Sierra Pacific should improve the heat rate at Valmy Unit 1.

Valmy Unit 1 is a coal-fired plant jointly owned and operated by Sierra Pacific and Idaho Power Company (IPC). Although Sierra Pacific operates the plant, it does not have sole control. Use of IPC's space is determined by IPC. The heat rate, therefore, is a function of decisions made by both IPC and Sierra Pacific. Testimony from Sierra Pacific witnesses indicates that it will make certain physical improvements which will increase the efficiency of the plant and, consequently, improve the plant heat rate. These changes indicate to the staff that Sierra Pacific is attempting to comply with its recommendation.

FOB proposed no specific target heat rate for Valmy I or any standards or goals for increasing plant efficiency. In response to the request of the ALJ for a specific performance standard, Supervising Utilities Engineer Jeffrey O'Donnell, the project manager for these applications, testified that FOB is aware of Commission interest in performance standards for power plants such as the Valmy unit. However, FOB is not recommending setting such a standard at this time. The reasons are:

1. The Valmy plant is only about a year and a half old. It is not a mature plant. Therefore, adequate data on which to base an incentive system does not yet exist.

ECAC-AER

Sierra Pacific's ECAC application requests a total ECAC increase of $5.7 million, and its AER application seeks a decrease of $89,000. A separate report (Exhibit 6) was prepared by staff witnesses Pamela Thompson and Cornell Hill of the Revenue Requirements Division (RRD). The staff recommended an ECAC increase of $1.9 million and an AER increase of $3.1 million. The bulk of the staff's recommended lower ECAC rate increase and its AER increase flows from the Commission's change in the ECAC/AER ratio of 98%-2% to the present 78%-22% of estimated fuel and purchased power costs, adopted in . D.83-08-048 in OII 82-04-02

Accounting

The staff witnesses made four adjustments to the balancing account to correct accounting errors, including use of a franchise and uncollectible rate of .0128 and a net-to-gross multiplier of 1.6224 as used by the Commission in D.83-04-066 in Sierra's last general rate case. Applicant stipulated to those adjustments.

Energy Forecast

The staff made the following recommendations which applicant accepted:

1. The staff sales projection is 21,523 MWh less than that of applicant.

2. The staff used the 78/22% ECAC/AER allocation ordered by the Commission in D.83-08-048.

3. The staff's projected energy loss is 12.67% rather than the 13.10% applicant estimated.

use by applicant is 0.63% rather than its estimate of 1%.

5. Because of 1, 3, and 4 above, the staff recommended reduced gas/oil generation and Valmy buyback purchases.

The following issues remain in dispute:

ERAM

We authorized an ERAM mechanism for Sierra Pacific in its last general rate case, D.83-04-066, issued April 20, 1983. Under this decision, Sierra Pacific is to include proposed ERAM rates in its ECAC applications. Accordingly, Sierra Pacific requested implementation of an ERAM rate in this proceeding as this is the first ECAC proceeding subsequent to the issuance of D.83-04-066. In its application, Sierra Pacific projected an ERAM revenue requirement of $229,757. The staff in its Exhibit 6 originally recommended that this amount be increased by $32,315 to $262,072, which is based on:

Decreased ERAM Revenue Requirement for May, 1983	-$23,753
Net increased ERAM Revenue Requirement for period August 1983 - December 1983	47,428
Increase in related interest	8,640
Total Net Increase in ERAM Revenue Requirement	$32,315

The reason for the decrease of $23,753 is that, by D.83-04-065 and D.83-04-066, effective April 20, 1983, the Commission authorized an AER and base rate change for the company. However, billed revenues for May 1983 contained a mix of old and new rates, because under the company's procedures, a portion of kWh billed in May 1983 related to services rendered in April and billed at the old rates. The company, therefore, understated its May 1983 recorded base revenues for purposes of the ERAM calculation in that it applied the billed percentage of 42.2% to billed May revenues which were composed of old and new rates. To properly compute recorded revenues reflecting the new rates for May 1983, the staff applied the new AER and base rates to the billed kWh for May 1983. The product from the above calculation was then multiplied by the percentage of May's billed revenues that represent deliveries in May 1983. The remaining calculation methodology of Sierra Pacific remains the same.

The staff's revised calculation resulted in services-rendered revenues for May 1983, subject to ERAM, of $1,338,041 as delete

It is important to note that the adopted $150 RCS audit level is still significantly above the recorded cost experienced by other utilities under our jurisdiction. But for the special circumstances evident in this record, we would have preferred to adopt a lower figure. Indeed we believe the adopted figure is still on the high side, and we expect Sierra Pacific to work, under the guidelines outlined in this discussion, to further reduce these costs. We place Sierra Pacific on notice that we will closely scrutinize its audit costs in future rate proceedings to ensure that such costs are reasonable.

The following sets forth the calculation of the CFA test year revenue requirement:

1. 1984 Program Costs	
8% Financing	$37,077
RCS	60,000
Subtotal	$97,077
2. Recorded Costs - August 1, 1982 Through July 31, 1983	
8% Financing	$ 50,058
RCS	191,805
Subtotal	$241,863
3. Staff Estimate of Program Expenses August 1, 1983 to December 31, 1983	
8% Financing	$15,000
RCS	15,000
Subtotal	$30,000
4. Allowance for Franchise and Uncollectible Accounts	
Expense @ .0128	
8% Financing	$1,307
RCS	3,415
Subtotal	$4,722
Grand Total	$373,662
CFA Billing Factor	.093¢/kWh

3. The proposed conservation rebate plan should not be adopted until a showing of its comparative cost effectiveness to the existing 8% loan program is presented.

4. Sierra Pacific should be authorized to establish the ECAC, AER, and CFA billing factors found reasonable above. Increases resulting from the establishment of such billing factors are justified.

5. Sierra Pacific should be required to modify its Preliminary Statement, Parts E and G, to reflect ERAM revision dates adopted in D.83-02-076.

6. Inasmuch as the forecast period for which the revised billing factors are to apply began January 1, 1984, this order should become effective on date of issuance.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Sierra Pacific Power Company is authorized to file with this Commission in conformance with General Order 96-A, revised tariff schedules reflecting the changes set forth in Appendix B to this order.