

Decision No. **88469** - FEB 7 1978

**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 (ECAC). Application No. 57581 (Filed September 19, 1977)

George M. Stout, Attorney at Law, for Sierra Pacific Power Company, applicant.

James T. Quinn, Attorney at Law, and Mahendra Jhala, for the Commission staff.

O P I N I O N

Sierra Pacific Power Company (Sierra Pacific) seeks authority to increase its Energy Cost Adjustment Billing Factor (ECABF) from 1.53¢ per kwh to 1.217¢ per kwh for all lifeline sales and from 1.53¢ per kwh to 2.225¢ per kwh for all nonlifeline sales or an increase of .064¢ per kwh and 1.072¢ per kwh, respectively, effective November 1, 1977. This results in an increase in California jurisdictional electric revenues of \$2,913,244 or 21.8 percent annually to offset similar increases in the cost of fuel and purchased energy.

Background

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

Section 6.7.4 of the company's preliminary statement on ECAC reflects supplier refunds to be recorded in the balancing account. The staff engineer concurred in the financial examiner's treatment of the supplier refunds. He further testified that Sierra Pacific's fuel procurement policies were prudent however, he was of the opinion that applicant's best rate improvement strategy needed further refinements to reach acceptable best rate levels.

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Sierra Pacific was ordered by the Commission to file its Energy Cost Adjustment Clause (ECAC) by Resolution No. EE-1601, issued October 19, 1976, and by Decision No. 87307 dated May 10, 1977 was authorized to increase its rates to offset its increased cost of fuel and purchased energy through the initial implementation of its ECAC. The increase in that proceeding was applicable to all sales instead of only to nonlifeline sales because the proposal resulted in lifeline rates still being lower than those rates in effect on January 1, 1976.

Applicant in this proceeding proposes to increase lifeline rates to the same level in effect on January 1, 1976.

After due notice public hearings in this matter were held on November 10, 1977 before Administrative Law Judge Tomita in South Lake Tahoe. The matter was submitted on November 19, 1977 upon receipt of late-filed Exhibit 3.

Jack C. McElwee, manager of Rates and Regulation, testified for Sierra Pacific and Financial Examiner III, Richard Mottoros, and assistant engineer, Hugo J. Luke of the Utilities Division Electric Branch, testified for the Commission staff.

The staff financial examiner reviewed the entries recorded in the energy cost balancing account and, aside from some minor discrepancies, generally concurred with applicant's calculations except for the accounting of refunds from suppliers in Account 253, Other Deferred Credits, rather than in the energy cost balancing account. The staff adjustment results in a reduction in the balancing account of \$494,636 to \$731,830 and a corresponding reduction in the balancing rate from 3.41 mills per kwh to 2.05 mills per kwh. The staff contends that Section 6.J.(4) of the company's preliminary statement on ECAC requires supplier refunds to be recorded in the balancing account. The staff engineer concurred in the financial examiner's treatment of the supplier refunds. He further testified that Sierra Pacific's fuel procurement policies were prudent; however, he was of the opinion that applicant's heat rate improvement strategy needed further refinements to reach desirable heat rate levels.

The Issues

1. Should supplier refunds be included in the balancing account as per Section 6.J.(4) of the preliminary statement, or does the signing of SB 604 into law as Public Utilities Code Section 453.5 forbid such treatment?

2. Is applicant's heat rate improvement program adequate?

Supplier Refunds

The question of including supplier refunds in the balancing account was the only serious area of difference between applicant and staff. Even here applicant's main concern was whether newly enacted Public Utilities Code Section 453.5 (SB 604) and litigation by certain parties in Case No. 10255 might legally preclude the Commission from including supplier refunds in balancing accounts, rather than any basic disagreement on Sierra Pacific's part against such treatment. In Case No. 10255, Sierra Pacific in fact has recommended that supplier refunds be credited to the balancing account as it has been authorized to do in the State of Nevada.

Further, Sierra Pacific's witness testified in this proceeding that such treatment would result in an equitable distribution of supplier refunds.

We are of the opinion that the supplier refunds, amounting to \$494,636, should be credited to the ECAC balancing account. This procedure was recently adopted with respect to gas supplier refunds in Application No. 57481, Decision No. 88261, involving the Pacific Gas and Electric Company. By so crediting the supplier refunds we can avoid raising ECAC rates while at the same time having refund billing adjustments made. That complexity of raising and, in effect, lowering rates on the customer's bill is a needlessly complex method of dealing with supplier refunds.

Heat Rate Improvement Program

Although the staff raised the issue of the adequacy of Sierra Pacific's heat rate improvement program, the record developed in this proceeding reveals that neither staff nor applicant was prepared to

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discuss this issue in detail. In order to ensure that Sierra Pacific is optimizing its system generation, both staff and applicant will be expected to further explore this subject matter in the next ECAC proceeding.

Base Rate Modification

In Decision No. 88337 in Application No. 57076, a request of Sierra Pacific for a general increase in rates, the Commission adopted the staff recommendation to back out of base rates all energy costs and to transfer such costs to ECAC. This decision will not only increase the ECAC factor to pick up the additional revenues necessary to offset increased fuel and purchased energy costs, but also the energy costs which were backed out of the base rates to produce the following revised ECAC factor:

	<u>Lifeline</u>	<u>Nonlifeline</u>
	<u>Sales</u>	<u>Sales</u>

Present ECAC rates D.87307 1.153¢/kwh 1.153¢/kwh

Energy cost transferred from base rates 734.12 ¢/kwh 734.12 ¢/kwh

Additional ECAC increase A.57581 .071 ¢/kwh .883 ¢/kwh

Revised ECAC factor 1.958¢/kwh 2.770¢/kwh

Findings

It is appropriate to record supplier refunds of \$494,636 in the ECAC balancing account thereby reducing such balance to \$734,830 as of July 1, 1977.

Sierra Pacific is authorized to increase its ECABF by 734.12¢ per kwh applicable to all sales to assume energy costs backed out of base rates and further authorized a .071¢ per kwh ECABF increase to 1.958¢ per kwh applicable to all lifeline sales and a .883¢ per kwh ECABF increase to 2.770¢ per kwh applicable to all nonlifeline sales.

The authorized rates are estimated to produce \$2,387,000 of additional revenues or 17.9 percent increase in California jurisdictional revenues.

4. The authorized ECABF of 1.958¢ per kwh for lifeline sales will restore lifeline rates to the rate in effect as of January 1, 1976.

5. The reasonableness of Sierra Pacific's heat rate reduction program is an issue that should be thoroughly developed in the next ECAC proceeding.

6. The changes in rates and charges authorized by this decision are reasonable; the present rates and charges, insofar as they differ from those set forth in this decision, are, for the future, unjust and unreasonable.

Conclusions

1. Sierra Pacific should be authorized to file and place into effect the authorized ECABF set forth above.

2. The effective date of this order should be the date hereof because there is an immediate need for rate relief. Sierra Pacific is already incurring the costs which are being offset by the rate increase authorized here.

ORDER

IT IS ORDERED that:

1. Sierra Pacific Power Company is authorized to file revised rate schedules to increase its Energy Cost Adjustment Billing Factor for lifeline sales to 1.958¢ per kwh and to 2.770¢ per kwh for all nonlifeline sales.

2. Sierra Pacific Power Company is authorized to file with this Commission on or after the effective date of this order, in conformity with the provisions of General Order No. 96-A, revised tariff schedules substantially as specified herein.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 7th day of FEBRUARY, 1978.

*I abstain  
William S. Young Jr.*

Robert Babinich  
President

Jerome L. Schreger  
Robert D. Swank  
Clair J. Deibel  
Commissioners