

Decision No. 89660 NOV 28 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. 57908
(Filed March 1, 1978)

John Madariaga, Attorney at Law (Nevada),
and George M. Stout, Attorney at Law,
for applicant.
Patrick J. Power, Attorney at Law,
Mahendra Jhala, and Thomas Lew, for
the Commission staff.

O P I N I O N

Sierra Pacific Power Company (Sierra Pacific) applies for authority to implement its Energy Cost Adjustment Clause (ECAC) to reflect current cost levels for energy costs. Sierra Pacific's ECAC was filed pursuant to Commission Resolution No. E-1601 October 19, 1976, and by Decision No. 87307 (Application No. 56911) dated May 10, 1977, we first set rates thereunder.

Sierra Pacific is engaged in public utility electric service in California, principally in the Lake Tahoe area, and also furnishes public utility gas, water, and electric service in parts of Nevada.

Sierra Pacific specifically requests authorization to meet increased costs of fuel and purchased power by an Energy Cost Adjustment Billing Factor (ECABF) of 22.75 mills/kWh (2.275¢) for lifeline sales and 30.87 mills/kWh (3.087¢) for nonlifeline sales calculated in accordance with Sierra Pacific's ECAC. The present ECABF for lifeline sales is 1.958¢ and for non-lifeline is 2.270¢. The resulting increase would be \$1,151,432 or a 6.50 percent annual increase in revenues.

The application is intended solely for the purpose of effecting a direct recovery from its California electric customers of increased fuel and purchased power costs and not for the purpose of increasing net operating income. Sierra Pacific last received general rate relief in Decision No. 88337 (Application No. 57076) dated January 17, 1978.

Hearing was held before Administrative Law Judge Donald C. Meaney in South Lake Tahoe on May 9, 1978. In addition to company and staff witnesses, several members of the public appeared to protest increases to certain rate classifications, particularly regarding outdoor lighting.

Sierra Pacific purchases power from Utah Power and Light Co. (UPL) and Pacific Gas and Electric Company (PG&E). It also purchases fossil fuels from various sources after following a bidding procedure.

The staff completed a field investigation of the company's power plants and thoroughly reviewed its work papers supporting this application, as well as the company's contracts, agreements, fossil fuel bids, and other pertinent data. In order to expedite the proceeding, the company essentially accepted the staff adjustments, except for the Finance Division's proposed treatment of economy energy sales, discussed elsewhere. For this reason, the discussion of most issues can be abbreviated.

Sierra Pacific has, we note, not filed an advice letter rate reduction to pass on the tax savings that result from the passage of Article XIII-A of the California Constitution (Proposition 13). We will consider the issue of such ad valorem tax savings in OII No 19. ✓

Economy Energy Sales

The major issue in this proceeding concerns treatment of economy energy sales for ratemaking purposes, and secondarily the method by which to account for them.^{1/} Economy energy sales ✓

^{1/} The testimony and argument on this issue is extensive and must be reduced there to bare essentials in the interest of brevity.

are those sales made by a utility which is not fully using its power sources at the time of delivery to a buyer which uses the energy to reduce generation by more expensive units or to avoid curtailing delivery to secondary or interruptible customers.

Sierra Pacific seeks recovery from the increases in fuel and purchased power costs which occurred during the period August 1, 1977 to January 31, 1978. During that time, Sierra Pacific sold PG&E 698,482 MWh of electricity for \$16,605,572 and UPL 24,920 MWh for \$584,882 totaling 723,402 MWh for \$17,190,454.

Sierra Pacific proposes that we treat these sales as we have previously by crediting Account No. 447, "Other Sales Revenue". Sierra Pacific's Opening brief states (page 2):

"Sierra Pacific has accounted for the economy energy sales in question in all three of its ECAC proceedings (Tr. p. 115, l. 17-23) by crediting other sales revenue, Account 447. In accordance with Sierra Pacific's Preliminary Statement (Exhibit 6) the company has excluded economy energy sales from its ECAC calculation by eliminating the incremental cost of generating the economy energy and the related megawatt-hour sales. This was the method that the California Public Utilities Commission staff originally recommended that the company use (Tr. p. 115, l. 27-30; p. 116, l. 1-5). Sierra Pacific adopted the existing accounting treatment only after a great deal of research to determine the proper method."

In further support of its position, Sierra Pacific maintains that its method of accounting for economy energy sales is in conformity with its Preliminary Statement as previously approved by the Commission.

The record reflects that the Utilities Division took no position on this issue. The staff Finance Division witness testified that the accounting treatment for such sales should be to credit the ECAC balancing account (Account No. 555) with that proportion of the net settlements attributable to California jurisdictional sales (\$468,562). Finance Division contends that ratepayers should reap the benefit of such economy energy sales

through an ECAC adjustment for the following reasons: (1) these transactions are the direct result of interconnection and energy exchange agreements for purposes of mutual assistance among utilities; (2) the sales originate from utility plant investment supported by California ratepayers; (3) the fuel used to generate the electricity is purchased in the ordinary course of utility business; and (4) the benefit from such sales should be appropriately recognized in considering utility operations.

Staff counsel marshals additional support for Finance Division's position by analogizing to the circumstances presented to the Commission in A.55506 (SDG&E) regarding the appropriate treatment of the gain from the sale of fuel oil. The Commission, in Decision No. 84618, concluded that the gain from the sale was properly credited to the fuel clause calculation as an offset to increases in expenses. Public Utilities Code Section 775 has subsequently codified the Commission's decision.^{2/} In drawing a comparison between Section 775 and the present situation, staff's opening brief comments (page 3):

"Thus it is plain that if applicant had sold fuel oil to PG&E, any gain from the sale would be applied as an offset to expenses. What is there in the nature of the physical transformation from oil to heat to electricity that reverses the policy considerations that support Decision No. 84618 and Section 775? The implications of the applicant's position are ominous: Section 775 will always be avoided by the simple device of burning the oil and selling electricity."

Sierra Pacific counters that the sales are not exchange transactions and reminds us that in a recent Southern California

^{2/} "Whenever an electric or gas corporation sells fuel oil which is, or is reasonably expected to be, useful in the performance of its public utility function, at a price higher than the electric or gas corporation's purchase cost, the Commission shall, in any rate proceeding, require that the amount higher than the purchase cost be credited with interest against the expense claimed by the electric or gas corporation." (Added 1976, Ch. 1360.)

Edison ECAC proceeding^{3/} we recently adopted, for a similar sale, the accounting treatment now advocated by Sierra Pacific and the staff engineer. In the Southern California Edison matter, the staff engineer testified that the proper place for making any allowance for such a sale was in a general rate increase application.

However, we note that there has been no such past treatment of economy energy sales by Sierra Pacific, because Sierra Pacific had not previously engaged in such sales. The occurrence of these particular sales makes the future inclusion of such sales apparently appropriate, and a reasonable adjustment will be considered in the next general rate case.

Though the staff proposal for crediting ECAC and passing benefits from economy energy sales on to ratepayers has substantial merit, we choose to adhere to our previous method and not to include these transactions in the ECAC calculation. The Commission is persuaded to accept Sierra Pacific's position given the fact the treatment of economy sales in this matter is in conformity with Sierra Pacific's Preliminary Statement and language therein which was recommended by the staff and approved by the Commission. If we are to depart from previous norms in dealing with various transactions relating to ECAC, we should not do so on a piecemeal, company-by-company basis; but rather the complex issues should be resolved in a generic proceeding with all interested parties assured their "due process" right to participate or in an ECAC proceeding involving a major utility. We are convinced, however, that the long-range policy arguments concerning treatment of economy energy sales were not fully explored in this case, and we may choose to account for such sales differently in future proceedings.

^{3/} Decision No. 88340 dated January 17, 1978 in Application No. 57587.

ECAC Calculation and Rate Design

The Utilities Division in Exhibit 8 proposed several alternative rate spreads for the Commission's consideration. It also discussed the provisions of Section 739 of the Public Utilities Code and the Commission's interpretation thereof in Decision No. 88651 in Phase II of Case No. 9988. That decision states on Page 20a that the Commission can increase lifeline rates as it deems appropriate once the average system rate has increased 25% or more above the January 1, 1976 level. At present, Sierra Pacific's average system rate is in excess of 25% of the January 1, 1976 level. Furthermore, an appropriate differential between lifeline and nonlifeline base rates was achieved through the rates authorized in Decision No. 88337, Sierra's most recent rate increase proceeding. As a means of maintaining the existing level of rate differentials between lifeline and nonlifeline customers and in order to share the present increase equally, we will spread the increase to all classes of customers on a uniform cents per kilowatt-hour basis. The resultant ECABF's based on a uniform increase of .317¢ per kilowatt-hour appear in Finding 2.

Street Lighting Rates

A few public witnesses testified that, in their opinion, outdoor lighting rates were becoming excessive. They pointed out that in most parts of the service area there is no public street lighting and therefore private outdoor lights are necessary for safety.

This proceeding involves an insufficient total increase to generally restructure rates, and we believe that these persons and others interested should present their views in the next proceeding.

Heat Rate Improvement Program

In Decision No. 88469 (February 7, 1978; Application No. 57581) concerning Sierra Pacific's most recent preceding ECAC application, we found that both the company and the staff were not prepared to consider this issue in detail and ordered that they present the necessary facts in the next ECAC application. Heat rates for recent years, as shown in Exhibit 8, pp. 2-7, are as follows:

<u>Month and Year</u>	<u>Heat Rate</u>
Dec. 1973	10.655
Dec. 1974	10.641
Dec. 1975	10.644
Dec. 1976	10.774
Jan. 1978	10.594

Power plant efficiency is measured by heat rate, which is the amount of energy required to generate one kWh of electricity. The lower the number, the more efficient the heat rate.

The staff considers Sierra Pacific's efforts to reduce the heat rate adequate. Exhibit 8 reviews company steps in this direction, which include (1) reduction of turbine back pressure, (2) complete disassembly and inspection of turbines in five-year intervals, and (3) tests of units after initial installation.

The staff points out that the company should include comparison of test data with the manufacturer's specifications when testing the turbine equipment to determine whether it may be accepted. We agree.

Documentation of Certain Transactions

We agree with the staff's comments concerning documentation of certain contracts and agreements relative to residual oil contracts and diesel oil and will require the company to keep proper records of these transactions for inspection.

Exhibit 8 points out that since October of 1977 the price of gas has exceeded the price of oil. The exhibit recommends that Sierra Pacific explore the possibility of somewhat greater dependence on oil, recognizing the problems of increasing oil storage capacity. At this time, the staff requests only that we order the company to include in its reasonableness reports an explanation of how it determines how much gas versus oil it uses in any particular period, and that it retain the necessary documentation. This is a reasonable request.

Findings of Fact

1. It is reasonable, for this application, to continue to treat economy energy sales for ratemaking purposes as we have previously, by crediting Account No. 447, "Other Sales Revenue".

2. Sierra Pacific should be authorized to increase its ECABF as follows:

a. Lifeline present rate:	1.958¢/kWh
Plus differential	.317¢/kWh
Total Lifeline rate	<u>2.275¢/kWh</u>
b. Nonlifeline present rate:	2.770¢/kWh
Plus differential	.317¢/kWh
Total nonlifeline rate	<u>3.087¢/kWh</u>

3. The increase set forth in Finding 2 is estimated to produce an additional \$1,151,432 in California jurisdictional revenue.

4. Such increase is necessary for effecting a direct recovery from Sierra Pacific's California electric customers of the increased fuel and purchased power costs and is not intended to result in increasing net operating income. ✓

5. The company's heat rate improvement program is satisfactory. When performing initial inspection and testing of equipment, the company should utilize the manufacturer's specifications along with other data.

6. We should order the company to maintain records of transactions relative to residual oil contracts and diesel oil contracts.

7. In the future, the company should include in its reasonableness report an explanation of how it determines the percentage of gas and oil it uses in electric production for the period covered by the report.

Conclusions

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

2. The effective date of this order should be the date hereof since Sierra Pacific is already incurring the costs which are being offset by the authorized rate increase.

O R D E R

IT IS ORDERED that:

1. Sierra Pacific Power Company (Sierra Pacific) is authorized to file revised rate schedules to increase its Energy Cost Adjustment Billing Factor as shown in Finding 2.
2. Sierra Pacific shall maintain adequate documentation of residual oil contracts and diesel oil contracts.
3. Future reasonableness reports shall contain the data referred to in Finding 7.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 28th
day of NOVEMBER, 1978.

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

Robert B. ...
President
William ...
Richard D. ...
Clair T. ...
Commissioners