

Decision No. 92709 FEB 18 1981**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. 59915
(Filed September 2, 1980)

Patrick T. Kinney, Attorney at Law
(Nevada), for applicant.
Freda Abbott, Attorney at Law, and
Julian Ajello, for the Commission
staff.

O P I N I O N

Sierra Pacific Power Company (Sierra Pacific) applies to implement its energy cost adjustment clause (ECAC) to reflect current cost levels for energy costs.

In California, Sierra Pacific is engaged in public utility electric service, principally in the Lake Tahoe area. Most of its service territory is in Nevada where it furnishes public utility electric, gas, and water in parts of that state.

In this application Sierra Pacific requests an increase of 0.322 uniform cents per kWh to both lifeline and nonlifeline rates. Its present energy cost adjustment billing factor (ECABF) is 3.084¢/kWh for lifeline rates and 4.252¢/kWh for nonlifeline rates. (Decision No. 92069, dated July 29, 1980, Application No. 59491; rates calculated according to Sierra Pacific's ECAC on file with this Commission pursuant to Resolution No. E-1601 dated October 19, 1976.) The resulting ECABF figures would be 3.406¢/kWh for lifeline rates and 4.574¢/kWh for all nonlifeline schedules. The requested increase is estimated to produce total rate relief of \$1,293,383.

Hearing on this application was held before an Administrative Law Judge at South Lake Tahoe on November 5, 1980, and submitted on that date. No interested parties presented evidence. The Board of Education of the Lake Tahoe Unified School District presented a resolution stating that because of recent energy cost increases, utilities and this Commission should practice restraint in increasing rates. One public witness appeared protesting the increase.^{1/}

This proceeding was submitted prior to certain changes in ECAC methodology adopted in OII 56 (Decision No. 92496 dated December 5, 1980). The annual review required by that decision will occur in Sierra Pacific's next ECAC filing.

Revenue Requirement

This application is not intended to increase Sierra Pacific's net operating income, but is for the purpose of recovering increased costs of purchased power and fuel.

The staff reviewed Sierra Pacific's development of its costs associated with the record period for this proceeding (twelve months ended July 31, 1980) and does not dispute the claimed revenue requirement. During the period, the following occurred:

1. The average delivered price per barrel of fuel oil rose from \$13.32 to \$22.86.
2. Diesel fuel prices increased from an average of 40.55¢/gallon (\$17.03/barrel) to an average of 84.35¢/gallon (\$35.43/barrel).

^{1/} The low turnout was probably due to the recent hearings in Sierra Pacific's pending general rate increase proceeding, Application No. 59874, which attracted greater public participation because of the issues involved.

3. Natural gas (which accounts for about 66 percent of Sierra Pacific's generation mix) increased from 21.84/therm to 33.04/therm.
4. In January of 1979, Pacific Gas and Electric Company charged Sierra Pacific 1.837¢/kWh and Utah Power and Light charged 1.529¢/kWh. By year-end these prices had increased to 2.444¢/kWh and 1.187¢/kWh, respectively.

Sierra Pacific's testimony and exhibit supports the development of these increases, according to the staff investigation. There is no disagreement over the ECAC calculation.

Rate Design

The issue in this proceeding is whether the Commission should raise domestic electric schedules on a uniform cent or a uniform percentage basis.

The question involves domestic rates only. Other schedules are all straight-line rates, and there is no block differential to be maintained. Thus, there is no company-staff disagreement over design of commercial rates. Within the domestic class, there are three base-rate tiers, the first tier being lifeline. When an increase is applied to the domestic class, it can either be spread equally (in cents) or proportionately (in percentage).

The staff's methodology produces the following:

<u>Classification</u>	<u>¢/kWh</u>
Lifeline	3.319
Nonlifeline domestic	4.622
All commercial	4.574

Sierra Pacific opposes a uniform percentage allocation because the differences between the nonlifeline domestic charges and the nondomestic (commercial) rates are accentuated. The proposal, according to Sierra Pacific, is a major change in rate design that should be considered in a general rate proceeding.

Sierra Pacific points out that it is difficult to explain to its residential customers why part of the residential rate is higher per kWh than the commercial rate.

The staff counters that recent Commission policy has not been to subsidize the nonlifeline domestic rates by raising the commercial rates, and that the burden for future ECAC rate increases should be borne by all classes of customers on a uniform cent per kWh basis, but within the domestic class the burden should be principally on nonlifeline rates. (Pacific Gas and Electric Co., Decision No. 90369 dated October 10, 1979; Southern California Edison Co., Decision No. 90967 dated October 23, 1979, Application No. 58764.) A uniform cents application of the increase will actually reduce the percentage differentials between the domestic rate tiers, the staff argues.

The difficulty with Sierra Pacific's "major rate design" argument is that no matter which way the increase is applied, there is, in a sense, a rate design change. If the increase is applied on a uniform cents basis, the domestic rates are changed in structure by flattening the percentage differentials, while if it is applied on a uniform percentage basis, differences between domestic nonlifeline and commercial rates are increased.

We reiterate our current policy that the commercial rate schedules should not subsidize the domestic nonlifeline rates, even if this will sometimes result in domestic nonlifeline rates which are higher than the commercial rates. In our opinion, subsidizing domestic rates is not conducive to conservation. The staff's proposal is consistent with this policy and should be adopted.

The average cent-per-kWh increase in this application is .322¢; this increase should be applied to all classes of customers. It is true that the resulting nonlifeline domestic rate exceeds the commercial rate, but we wish to adhere to our policy of maintaining the percentage differentials we have set between domestic rate blocks when ECAC costs are passed through.

If ECAC increases cumulatively result in differences between nonlifeline domestic rates and commercial rates which are too pronounced, the problem should be resolved in that utility's general rate increase proceeding, where there can be greater consideration of rate design generally. Otherwise, ECAC proceedings will be lengthened by an increasing number of rate design issues.

Findings of Fact

1. Sierra Pacific's present ECABF is 3.084¢/kWh for lifeline rates and 4.252¢/kWh for nonlifeline rates. (Decision No. 92069 dated July 29, 1980 in Application No. 59491.)

2. Since the present ECABF levels were instituted, Sierra Pacific has incurred increases for the purchase of fuel oil, diesel fuel, natural gas, and purchased power as enumerated in the opinion section of this decision.

3. Present ECABF levels are inadequate to meet those price increases, and the new levels of 3.406¢/kWh for lifeline service and 4.574¢/kWh for all nonlifeline schedules, proposed by Sierra Pacific, are necessary for Sierra Pacific to recoup the mentioned cost increases.

4. The adjustment to the ECABF factors will produce an estimated increase in revenue of \$1,293,383.

5. It is reasonable to allocate the increase to domestic rates on a uniform percentage basis.

Conclusions of Law

1. Sierra Pacific should be authorized to increase its ECABF factors as set forth in Finding 3.

2. The changes in rates and charges authorized herein 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.

3. The increase should be allocated to domestic rates on a uniform percentage basis.

4. The effective date of this order should be the date it is signed because Sierra Pacific is already incurring the energy cost increases which are being offset by the authorized rate relief.

ORDER


IT IS ORDERED that:


1. Sierra Pacific Power Company is authorized to file revised rate schedules to increase its energy cost adjustment billing factors to 3.319¢/kWh for lifeline rates, 4.622¢/kWh for nonlifeline domestic rates, and 4.574¢/kWh for all nondomestic classifications.


2. This proceeding is closed.

The effective date of this order is the date hereof.

Dated _____, at San Francisco, California.



President




Commissioners