ALJ/ec *

Decision ~~93374~~ AUG 4 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 60246 (Filed February 5, 1981)
In the Matter of the Application of SIERRA PACIFIC POWER COMPANY for Authority to Postpone Implementation of its Energy Cost Adjustment Clause (ECAC).	Application 60369 (Filed March 18, 1981)

Patrick T. Kinney, Attorney at Law (Nevada), for Sierra Pacific Power Company, applicant.
Edward W. O'Neill, Attorney at Law, and Cleo D. Allen, for the Commission staff.

O P I N I O N

On February 5, 1981 Sierra Pacific Power Company (Sierra) filed Application (A.) 60246 for the recorded energy cost adjustment period August 1, 1980 through January 31, 1981 and the energy cost adjustment clause (ECAC) forecast period February 1, 1981 through May 31, 1981. Sierra requests the Commission to authorize the Energy Cost Adjustment Billing Factor (ECABF) of 38.76 mills/kWh (3.876¢) for lifeline sales and 53.97 mills/kWh (5.397¢) for nonlifeline sales. In addition it requests that its base rates be increased by a factor of .04 mills/kWh (.004¢) to recognize a base-rate fuel inventory factor of .38 mills/kWh (.038¢) and by a factor of .81 mills/kWh (.081¢) representing the base-rate energy billing factor. The proposed adjustment to Sierra's current ECABF will amortize over a four-month period $1,621,000 from its balancing account and will collect approximately $41,000 in increased fuel and purchased power costs. Base rates would be increased by an annual amount of $342,878 representing 2% of fuel and purchased power cost to be collected over a one year period through base rate energy billing factor adjustment of .81 mills and the base rate fuel inventory factor adjustment of .04 mills.

On March 18, 1981 Sierra filed A.60369 to request permission to defer its filing for implementation of the June 1, 1981 ECAC revision date which was ordered in Decision (D.) 92496. The deferral is sought because the rates which applicant anticipates will be implemented by Commission order in A.60246 should allow for a current recovery of the amount currently in Sierra's balancing account. A.60369 anticipated a decision in A.60246 sometime in May 1981 and stated that the deferral of the June 1, 1981 revision date would ease administrative burdens on both it and the Commission. The estimated deferral amounts for the period of February through May, 1981 total $668,000 and Sierra states that they will not have a substantial impact on its balancing account.

After due notice both applications were consolidated for hearing before Administrative Law Judge (ALJ) Mary Carlos on April 30 and May 1, 1981. The matters were submitted subject to receipt of certain late-filed exhibits, which have been filed, and receipt of comments on those exhibits which were due on May 22, 1981. Neither staff nor Sierra filed comments. Three members of the public made statements concerning electric rates generally.

Summary of Decision

This order finds that, after the review directed by the generic ECAC investigation, Sierra's recorded costs of energy transactions for the period October 1, 1979 through September 30, 1981 are reasonable.

It authorizes amortization of Sierra's ECAC balancing account over a four-month period in order to draw that balance close to zero by the end of September 1981, so that ECAC rates thereafter may fluctuate in line with changes in fuel oil prices and energy mix after that date.

The order adopts Sierra's estimated fuel oil inventory level and the staff's sales estimates, and uses the latest available balancing account figures to develop the balancing rate for this proceeding, resulting in an adopted balancing rate of 8.7 mills. Using the staff's estimated costs of natural gas, the total ECAC adjustment rate (after franchise taxes and uncollectibles) is 50.25 mills. That rate will permit Sierra to recover 98% of its estimated fuel and purchased power costs for February through May, 1981 and to amortize its present balancing account of $1,240,289. The adopted ECAC rates will increase Sierra's electrical revenues by $1,034,752 for a four-month's period, or $2,902,223 annually.

The order adopts the rate of return of 11.33% and net-to-gross multiplier of 2.0581 found reasonable in Sierra's last general rate increase proceeding (D.92987) in determining the new Base Rate Fuel Oil Inventory Billing Factor. The new factor of .53 mills is determined by using Sierra's estimated inventory level and the staff's estimate of sales. A Base Rate Energy Billing Factor of .78 mills also was adopted. The adopted base rates will result in revenue increases of $152,963 for a four-month period, or $429,024 annually. ✓

The total revenue increases authorized herein are $1,187,715 for a four-month period, or $3,331,247 annually.

We have followed the rate design features adopted in D.92987 (general rates proceeding) in determining the specific increases in rates.

Sierra's request to defer filing for implementation of its June 1, 1981 ECAC revision is granted, in order to ease administrative burdens on Sierra and the Commission.

Reasonableness of Fuel and Purchased Power Costs

In D.92496, the decision on the generic ECAC investigation, the Commission ordered annual review of the reasonableness of recorded energy costs. For Sierra, that review was to take place in its February 1 ECAC filing, which is the current proceeding. Sierra presented a lengthy report (Exhibit 4) on the reasonableness of its historical transactions from October 1, 1979 through September 30, 1980 and for the forecast requirements October 1, 1980 through September 30, 1981. The staff cross-examined extensively on this report.

The staff report states that the utility's reasonableness report was reviewed and that the staff concludes that the costs of fuel and purchased power incurred during the record period are reasonable. In analyzing the record before us, we find no compelling reason to hold the matter of reasonableness open and will find reasonable Sierra's cost of fuel and purchased power for the period October 1, 1979 through September 30, 1980. However, in the next review of the reasonableness of Sierra's fuel costs and purchased power in the February 1982 ECAC filing, Sierra and other parties should clearly and fully set forth the analysis and considerations leading to their conclusions about reasonableness. We will be particularly interested in an analysis of Sierra's oil purchases and inventories as compared to natural gas purchases and availability.

Amortization Period

Sierra has proposed that the balancing account balance be amortized over a four-month period. It proposes this because the current application was not filed until shortly after the revision date of February 1, when the rates for the forecast period would ideally have been in place and, because of delay in setting hearing on the matter, it did not expect the rates that result from this proceeding to be in place until June 1, 1981 at the earliest. The staff has no objection to a four-month amortization. While a four-month amortization period will increase the ECABF about 50% over the current ECABF of 5.17 mills, it will also rapidly draw the ECAC balance close to zero by the end of September, thereby allowing ECAC rates to fluctuate more in line with changes in fuel prices or energy mix beginning with the October 1 revision. Accordingly, we will adopt a four-month amortization period.

Staff Recommendations

The staff auditor made seven recommendations in his report. Two of these are the reduction of $177,000 in the jurisdictional revenue requirement for the estimated cost of natural gas and the increase in the annual base-rate fuel oil inventory revenue requirement of $43,108 to take into account an 11.33% rate of return and a 2.0581 net-to-gross multiplier. These were accepted outright by Sierra.

In compliance with D.92496, dated December 5, 1980, in OII 56, we will remove the base rate component of fuel oil inventory in the amount of $558,586 from base rates. The fuel oil inventory henceforth is included as a component of Sierra's Annual Energy Rate (AER).

The remainder of the recommendations were not contested on cross-examination of the staff auditor by Sierra and will be adopted.

Discussion

The two major differences between staff and Sierra appear to be the staff's use of a lower fuel oil inventory and a lower level of sales.

Sierra's forecast of fuel oil inventory level is based on historical levels of inventory, while staff's estimate included an additional coal plant (Valmy Unit 1, a 250 MW coal-powered plant scheduled to go on line in October 1981 with 125 MW available to Sierra), additional gas and additional transmission. The combination of these factors, plus a lower sales estimated, caused staff to reduce its fuel oil inventory estimate to 264,800 barrels as compared to Sierra's estimate of 284,583 barrels.

The staff engineer did not indicate how many days' burn for Sierra's oil-fired units his estimate allowed. He stated categorically that 20 days' burn is adequate in the staff's opinion, but his recommendation was not based on the number of days' burn. He did agree on cross-examination that if less gas than forecasted was available, and if Valmy was not in service, then lower inventory levels could cause service problems. Under those circumstances it could well cost more to replace the oil than the carrying charges on the higher fuel oil inventory. For this reason, and because Valmy is not yet on line, we will adopt Sierra's estimated inventory level as reasonable for this proceeding.

The material in the staff engineer's report concerning the basis for his sales forecast is brief to the point of being terse. However, on additional direct testimony he indicated that the reason for the difference between staff estimates and Sierra's estimates was that staff used more recent data (without specifying what it was) and that staff used different assumptions as far as price increases and California income per capita assumptions were concerned (again without specifying exactly how these assumptions differed from Sierra's).

We will adopt the staff's sales estimates as more reasonable for this proceeding on the representation that more recent data were used and because we note that the recorded sales for February and March, 1981 furnished on Sierra's late-filed Exhibit 14 more closely match staff's estimates for those months than Sierra's sales estimates. For the future, however, the staff should more fully explain the rationale behind its estimates for our consideration.

Calculation of ECAC Balancing Rate

Sierra stipulated to the use of the latest available balancing account figures to develop the balancing rate for this proceeding. It provided late-filed Exhibit 14 showing these figures as of the end of March, 1981 and, calculating a new balancing rate of 7.96 mills, reduced from the 10.22 mills shown in Exhibit 9. This rate was calculated using Sierra's estimate of California jurisdictional sales. Use of the staff estimate of California jurisdictional sales of 149,964,000 kWh, which we have found reasonable, yields a balancing rate of 8.27 mills which we will adopt.

Calculation of the ECAC Offset and Adjustment Rate

There was no difference between Sierra's estimate of the cost of fuel oil and purchased power and that of the staff. The staff auditor recommended that Sierra's cost of natural gas be adjusted by $1,334,741 (resulting in an adjustment to California jurisdictional costs of $177,000) due to reconciliation of figures in Sierra's reasonableness report with the preliminary figures used by

Sierra's witness Franklin in her calculation of the offset rate. Sierra did not disagree with the adjustment. Calculation of the offset rate using the corrected cost of natural gas and the staff sales estimates previously found reasonable is as follows:

Fuel Costs	
Diesel	$ 25,547
Steam	10,843,871
Natural Gas	16,633,101
Total Fuel Costs	$27,502,519
Purchased Power Costs	18,580,568
Total Fuel and Purchased Power Costs	$46,083,087
Fuel and Purchased Power Costs Recoverable through ECAC (98% x 46,083,087)	$45,161,425
MWh Sales (Estimated February thru May 1981)	1,086,292
Cost per kWh of Sales (Mills)	41.57
Offset Rate (Mills)	41.57
ECAC Adjustment Rate (Mills)	
Offset Rate	41.57
Balancing Rate	8.27
Total	49.84
(Multiplied by Franchise and Uncollectible (F&U) factor of 1.0083)	50.25

We will authorize an adjustment rate of 50.25 mills to allow Sierra to recover 98% of its estimated fuel and purchased power costs for February through May 1981 and to amortize its present balancing account balance of $1,240,289.

Calculation of the ECAC Adjustment Rate as it applies to Lifeline and Nonlifeline Sales for the Period 2/1/81 - 5/30/81

This calculation develops the percent increase in ECAC revenue necessitated by our adoption of 41.57 mills as the ECAC offset and 8.27 mills balancing account rate. We have used the staff estimate of sales.

Total Amount To Be Recovered Based On Estimated Sales	
Fuel & Purchased Power Costs (41.57 mills x 1.0083 x 149,961 MWh	$6,286,000
Balancing Account Recovery (8.27 mills x 1.0083 x 149,961 MWh)	1,250,000
Total	$7,536,000
Recovery at Present ECAC Levels (1)	
Residential Lifeline (33.19 mills x 26,990)	896,000
Residential Nonlifeline (46.22 mills x 56,562)	2,614,000
Nonresidential Nonlifeline (45.74 mills x 66,412 MWh)	3,038,000
Total	$6,548,000
Differential	$ 988,000
Percent Increase in ECAC Revenue	15.09%

	Adopted Rates (2) (Mills)	Revenue
Residential Lifeline	38.20	1,031,000
Residential Nonlifeline	53.19	3,009,000
Nonresidential Nonlifeline	52.64	3,496,000
Total		$7,536,000

(1) 2-27-81 ECAC Rates (Mills)

Residential Lifeline	33.19
Residential Nonlifeline	46.22
Nonresidential Nonlifeline	45.74

(2) Uniform Percentage Increase

Calculation of Base-Rate Fuel Oil Inventory Billing Factor

Sierra requests an annual increase in the base rates of $325,878 representing 2% of energy costs, equal to 0.81 mills/kWh and a base-rate fuel inventory factor increase of 0.04 mills/kWh. These figures were based on a calculation using Sierra's then authorized rate of return of 9.4% and its then current net-to-gross multiplier of 1.958. D.92987 has since been issued authorizing a rate of return of 11.33% and a net-to-gross multiplier of 2.0581. The staff accountant recommends that these figures be used and the staff engineer does not disagree. In accordance with the generic ECAC decision, we will use the current figures to calculate the Base Rate Fuel Oil Inventory Billing Factor. As previously discussed we will use Sierra's estimated inventory level and the staff's estimate of sales. The calculation is as follows:

Average Inventory Level (2/1/81 - 2/1/82 estimated) (barrels)	284,583
Average Inventory Cost at 2/1/81 (barrels)	$ 26.1564
Average Inventory Value	$7,443,667
Total MWh Sales (Est. 2/1/81 - 2/1/82)	3,330,166
Average Inventory Value per MWh Sold (Mills)	2.24
California MWh Sales (Est. 2/1/81 - 2/1/82)	420,612
Average Inventory Value - California	$ 942,171
Authorized Rate of Return	11.33%
Carrying Cost for Fuel Oil Inventory	$ 106,748
Net-to-Gross Multiplier	2.0581
Revenue Requirement	$ 219,698
California MWh Sales	420,612
Base Rate Fuel Oil Inventory Billing Factor (Mills)	.5223
(Multiplied by 1.0083 F&U Factor) (Mills)	.5267

Use of the current rate of return and net-to-gross multiplier figures, plus use of the staff's lower sales estimates requires that base rates be increased by a factor of .24 mills to recognize the base rate fuel inventory factor of .53 mills shown above. This is substantially in excess of the .04 mill adjustment sought by Sierra to recognize a base rate fuel inventory factor of .38 but because of the timing of this decision after the general rate decision, we believe it justified and consistent with the generic ECAC decision.

Calculation of the Base Rate Energy Billing Factor

The staff has analyzed Sierra's energy mix forecast and finds it reasonable. The staff engineer's report states that the forecasted energy costs based on this energy mix have been adjusted to reflect the staff's sales forecasts. Since we have accepted the staff sales forecasts as reasonable, we will accept the staff's energy cost forecasts for purposes of this calculation.

Total Est. Fuel and Purchased Power Expense (2/1/81 - 2/1/82)	$128,888,635
MWh Sales	3,330,166
Cost per kWh Sold (Mills)	38.70
California Jurisdictional Sales (Est. 2/1/81 - 2/1/82)	420,612
California Jurisdictional Fuel and Purchased Power Costs	$ 16,277,684
Fuel and Purchased Power Recoverable Through Base Rates (2%)	$ 325,554
California Jurisdictional Sales	420,612
Base Rate Energy Billing Factor (Mills)	.77
(Multiplied by F&U Factor 1.0082) (Mills)	.78

Rate Design

Sierra has proposed a rate design which spreads the proposed increase on a uniform percentage basis in the belief that this particular method of spreading the revenue increase was consistent with the rate design previously used in Sierra's ECAC decisions.

The staff's rate proposal notes that in Sierra's last ECAC proceeding, the Commission found it reasonable to allocate the increase to domestic rates on a uniform percentage basis and emphasized that the Commission's policy is that nondomestic rate schedules should not subsidize domestic nonlifeline rates. Staff has assertedly designed its rates in conformance with these decisions except that a 50% spread between lifeline and nonlifeline ECAC rates has been selected, resulting in an increase that does not follow a uniform percentage basis. In support of his recommendation for the 50% spread between lifeline and nonlifeline tiers, the staff witness testified that in his opinion a larger spread would tend to increase conservation. No studies had been done to support this proposition. The staff witness did agree that should the Commission issue a decision in Sierra's pending general rate case prior to issuance of the decision in this proceeding, that he would recommend that the principles adopted in the general rate case be applied in developing rates for this ECAC proceeding.

D.92987 issued May 5, 1981 is an interim opinion in Sierra's general rate case. The rate design issues were reserved to the final decision and the increase was spread on a uniform cents per kWh basis.

D.91277, our decision in the generic ECAC investigation, provided that the general principles of rate design would be set in general rate cases and those principles would be applied as much as possible in ECAC proceedings.

In examining the relationship between the lifeline and nonlifeline tiers of the effective rates (base rates plus ECAC rates) that resulted in the interim order on Sierra's general rate case, we find a differential of 58%. The Sierra-proposed rate design yields a differential in effective rates between lifeline and nonlifeline of 55%. The staff proposal, while using a 50% differential in ECAC rates, yields a differential in effective rates of 63%. In our opinion Sierra's proposal for a uniform percentage increase more nearly preserves the existing rate relationships than does the staff's and it will be adopted. If a final rate decision is issued prior to the next ECAC revision which changes these relationships, we would expect both Sierra and staff to propose a rate design which reflects the new principles, consistent with our decision in D.91277.

A comparison of our adopted rates is set forth below:

Base Rates	Present	Adopted
Customer Charge	$1.65	$1.65
Lifeline $/kWh	.01471	.01573
Nonlifeline	.02947	.03049
All Excess	.05255	.05357
ECAC Rates		
Tier 1	.03319	.03820
Tier 2	.04622	.05319
Tier 3	.04622	.05319
Nondomestic, nonlifeline	.04574	.05264
Effective Rates		
Tier 1	.04790	.05393
Tier 2	.07569	.08368
Tier 3	.09877	.10676

Application 60369

Sierra has requested permission to defer its filing for implementation of the June 1, 1981 revision date provided for by D.92496. This deferral will ease administrative burdens on Sierra and will allow the lag associated with the late filing of this application and the expected late decision to catch up with the revision dates ordered in D.92496. Sierra states that the estimated deferral amounts for the period February through May, 1981 will not have a substantial impact on its balancing account. This is because it anticipates the rates from this ECAC filing will be effective in time to allow for a current recovery of the amount currently in Sierra's balancing account. The staff has no objection to this proposal and we will authorize Sierra to defer its June 1 revision date so that its next revision date will be October 1, 1981.

<u>Findings of Fact</u>

1. By A.60246 Sierra requests authority to increase its electric rates and charges under the ECAC included in Sierra's electric tariff.

2. The adopted base rates will increase Sierra's electric revenues by $152,963 for a four-month period, or $429,024 annually. ✓

3. The adopted ECAC rates will increase Sierra's electric revenues by $1,034,752 for a four-month period, or $2,902,223 annually.

4. A four-month period to amortize the balancing account balance will minimize undercollection.

5. The balancing account balance of $1,240,289 is a reasonable estimate to use as of April 1, 1981.

6. The equal percentage increase method most clearly reflects the present rate relationships among classes of customers and is reasonable for spreading the increased revenue requirement among customer classes.

7. The rate of return authorized in Sierra's most recent general rate case is 11.33% and the net-to-gross multiplier found reasonable is 2.0581, and it is reasonable to take these into account when computing Sierra's annual base rate fuel oil inventory revenue requirement.

8. No evidence was offered to indicate that Sierra's recorded energy costs for the period October 1, 1979 through September 30, 1980 were unreasonable or imprudent.

9. Sierra has delayed two to three months in the application of the Federal Reserve three-month prime commercial paper interest rate to the ECAC balancing account.

10. By A.60369 Sierra has requested to defer its June 1, 1981 ECAC filing and make its next ECAC filing in time for the revision date of October 1, 1981.

11. The staff accountant has recommended that Sierra book supplier refunds into the balancing account at 100% and Sierra has not contested this recommendation.

12. Because this order covers the ECAC revision date February 1, 1981 and because there is an immediate need for revenues, this order should become effective on the date it is signed.

Conclusions of Law

1. It is reasonable for Sierra to defer filing for its June 1, 1981 revision date to allow the regulatory lag associated with this proceeding to catch up with the ECAC balance.

2. The increases in rates and charges authorized by this decision are justified and reasonable.

3. Sierra should be authorized to establish the revised rates set forth in the following order.

O R D E R

IT IS ORDERED that:

1. Sierra Pacific Power Company (Sierra) is authorized to establish and file with this Commission in conformity with the provisions of General Order 96-A, revised tariff schedules of base rates and Energy Cost Adjustment Clause (ECAC) billing factors as shown in Appendix A and to revise its rates accordingly. The revised tariff schedules shall become effective not earlier than five days after filing and shall apply only to service rendered on or after the effective date of this order.

2. Sierra shall use no greater than a one-month lag in the application of the Federal Reserve three-month prime commercial paper interest rate to the ECAC balancing account.

3. Sierra shall book supplier refunds into the ECAC balancing account at 100%.

4. Applicant shall file revised base tariff schedules to reflect the removal of fuel oil inventory from base rates. Base rates shall be reduced by .029¢ per kWh.

This order is effective today.

Dated AUG 4 1981, at San Francisco, California.

President

Commissioners

APPENDIX A

Class of Service	Present Rates ¢/kWh					Adopted Rates ¢/kWh		
	Base Rates (A)	ECAC Rates (B)	Base Rates Plus ECAC (C) (A)+(B)	Base Rates (D)		ECAC Increase (E)	ECAC Rate (F) (E)+(B)	Base Rates Plus ECAC (G) (D)+(F)
				Base	AER			
Residential								
Tier I	.01471	.03319	.04790	.01442	.00131	.00501	.03820	.05393
Tier II	.02947	.04622	.07569	.02918	.00131	.00691	.05319	.08368
Tier III	.05255	.04622	.09877	.05226	.00131	.00691	.05319	.10676
Nonresidential		.04574				.00690	.05264	