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Decision 97-01-030 January 23, 1997

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), its electric revenue)
adjustment mechanism (ERAM), and)
its low-income rate assistance)
(LIRA) surcharge.)

ORIGINAL

Application 91-09-032
(Filed September 16, 1991)

Davis Norris, Attorney at Law, for Sierra
Pacific Power Company, applicant.
Alberto Guerrero, Attorney, for Office of
Ratepayer Advocates.

O P I N I O N

This decision finds that the reasonableness issues held open in interim order Decision (D.) 92-08-037 have, with one exception, been satisfactorily resolved by subsequent reasonableness proceedings in Application (A.) 92-08-040, A.93-08-049, and A.94-08-045. On the remaining issue, a \$3,688 disallowance recommendation by the Office of Ratepayer Advocates (ORA) (formerly Division of Ratepayer Advocates) for carrying costs associated with excess fuel inventory, we find in favor of the applicant, Sierra Pacific Power Company (Sierra).

Procedural Background

Sierra filed its Electric Cost Adjustment Clause (ECAC) application, A.91-09-032, on September 16, 1991. It requested authority to (1) increase its rates by \$669,000 for the 12-month forecast period beginning April 1, 1992; and (2) a finding by the Commission that its operations during the year ended June 30, 1991 were reasonable. The application was properly noticed and evidentiary hearings were held in San Francisco on March 30 and April 1, 1992. The only parties of record are Sierra and ORA. The

parties submitted a settlement agreement on the forecast phase on December 3, 1991 and concurrent briefs on the reasonableness phase on June 1, 1992.

In D.92-08-037, we adopted the settlement agreement between Sierra and ORA for the forecast phase of Sierra's application but found we could not issue a final decision on the reasonableness phase because Sierra had failed to demonstrate by clear and convincing evidence the reasonableness of its coal purchase expenses in the test period. We directed Sierra to rehabilitate its showing and found the record should be reopened for the limited purpose of obtaining and reviewing further evidence regarding Sierra's coal contracts.

On January 23, 1993, ORA submitted a report stating it had received and reviewed Sierra's submittal and found the material provided to be in compliance with the requirements of D.92-08-037. Further, ORA recommended that the Commission find Sierra's coal procurement actions during the record period reasonable but that it impose a potential disallowance of \$90,000 to be held in a memorandum account pending ORA's review of Sierra's actions in the record period from July 1, 1992 through June 30, 1993.

On February 3, 1994, at the request of the assigned administrative law judge, Sierra and ORA submitted a joint status report on the issues remaining to be resolved in a final decision in this proceeding. The parties state that ORA's reasonableness reports for the 1992 and 1993 record periods found there was insufficient evidence at that time to recommend a disallowance for Sierra's coal procurement practices; ORA no longer supports retaining a \$90,000 memorandum account and does not believe further hearings in A.91-09-032 are necessary.

Further, in the status report the parties state two smaller reasonableness issues outstanding in the record have been fully resolved: the monthly submittal by Sierra of economy energy reports; and Sierra's agreement to close its Conservation Financing

Account. The parties state three issues from A.91-09-032 remain to be resolved; these issues and their status are:

1. Should the Commission ask Sierra why it should not renegotiate its partnership agreement with Idaho Power Company? Should quarterly meetings be established to discuss the status of this contract?

The parties state Sierra is in renegotiation discussions and there is still a need to inform ORA of the status of the discussions. ORA's 1993 ECAC report states that certain aspects of the present agreement are favorable to Sierra's ratepayers.

2. What is the correct test of excess fuel inventory; the inventory held above the authorized forecast level or the inventory held above a new level established in the reasonableness review?

The parties state this issue was also raised in the 1992 and 1993 ECACs, and ORA requested that studies evaluating actual inventory levels be submitted in future reasonableness reviews. Since no disallowance was recommended relating to this issue in the 1992 ECAC, the settlement and Commission decision in that proceeding are silent on the matter.

3. If the Commission rejects the concept of establishing a new inventory level in reasonableness reviews (see #2 above), should the Commission disallow the recovery of carrying costs associated with diesel oil, residual oil, and coal held in excess of authorized inventory held by Sierra?

ORA recommended no disallowances for amounts over authorized levels in the 1992 and 1993 ECACs. ORA states that it has reached agreement with Sierra that if the Commission adopts its proposed disallowance, the correct calculation is \$3,688, as set forth in Exhibit 12, Schedule PMF-3, not the \$7,443 recommended by ORA in Exhibit 13 and its brief.

ORA and Sierra did not address the above issues in the 1994 ECAC proceeding. In its last filing under existing ECAC procedures, A.94-08-045, Sierra and ORA reached a proposed settlement, adopted by the Commission in D.95-08-019.

Sierra is now under a three-year ECAC incentive mechanism, the "Fuel and Purchased Power Cost Shared Recovery Mechanism," adopted in D.94-10-057. In D.95-10-045, we conditionally authorized the merger of Sierra with the Washington Water Power Company (WWP) and approved a \$3.1 million reduction in Sierra's electric rates and three-year rate freeze, effective upon implementation of the merger; this approval was modified by D.96-05-059 to provide an immediate rate reduction of \$2.3 million, with an additional \$0.8 million when the merger is final.

On June 28, 1996, one day after the completion of hearings before the Federal Energy Regulatory Commission, WWP terminated its merger agreement with Sierra. On November 4, 1996 Sierra and ORA filed a Joint Petition to modify D.96-05-059 to provide that current electric rates will remain frozen through December 31, 2000 without the requirement that the merger be successfully completed.

Discussion

We find that the issue of whether the Commission should ask Sierra to renegotiate its contract with Idaho Power Company is one we should address on a current basis, not the factual record of 1992. The parties' status report shows that ORA's recommendation that Sierra open renegotiations and keep ORA informed of the status of the discussions was implemented in 1993 and 1994. ORA has not raised the matter again since A.91-09-032. Therefore, we find, for purposes of this proceeding, the issue has been satisfactorily resolved.

The issue of the correct test of excess fuel inventory also has not been raised since A.91-09-032. In this proceeding, Sierra testifies it does not object to either the currently adopted

methodology or ORA's proposed methodology, provided it is permitted to seek recovery of all inventory carrying costs in its reasonableness reviews. ORA testifies that the level of inventory deemed excess should be determined after the test period ends based on actual operations, rather than on a review of whether Sierra met its forecasted target levels. We find the record does not provide sufficient justification for changing the established methodology; therefore, we do not adopt ORA's recommendation.

The only issue with a potential rate impact is ORA's recommended disallowance of \$3,688 for the carrying costs associated with diesel oil, residual oil, and coal inventories held in excess of authorized inventory levels. Sierra testifies in support of its inventory levels that (1) the test year had an unusually cold winter - some of the temperatures experienced in Nevada, as well as California, in late December 1990 were the coldest on record; (2) overall ratepayer savings resulted from Sierra purchasing more oil in the spring and summer months to take advantage of lower prices; and (3) overall benefits to Sierra ratepayers resulted from its operating agreement with Idaho Power Company on the allocation of coal inventory costs at the Valmy plant. We find Sierra's defense of its carrying costs to be persuasive. Therefore, we do not adopt ORA's proposed disallowance.

With all outstanding issues in A.91-09-032 resolved, this docket should be closed.

Findings of Fact

1. Sierra's practices in the test period of A.91-09-032 regarding measurement of its excess fuel inventory and recovery of all carrying costs related to fuel inventory in excess of authorized levels are reasonable.

2. All other reasonableness issues in A.91-09-032 have been fully resolved.

Conclusion of Law

This proceeding should be closed.

ORDER

IT IS ORDERED that Application 91-09-032 is closed.

This order is effective today.

Dated January 23, 1997, Francisco, California.

P. GREGORY CONLON
President

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

RICHARD A. BILAS

Commissioners