

Decision 00-05-004 May 4, 2000

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of SIERRA PACIFIC POWER  
COMPANY for approval of a proposed  
Distribution Performance-Based Ratemaking  
Mechanism.

Application 99-12-041  
(Filed December 31, 1999)

**O P I N I O N**

**Summary**

This decision dismisses without prejudice the application of Sierra Pacific Power Company (Sierra) for approval of a performance-based ratemaking (PBR) mechanism. We dismiss the application because it is unworkably incomplete and cannot be adequately processed by the Commission in its current form. Sierra may refile an application for approval of a PBR mechanism when the necessary documentation to support it is available.

**Discussion**

Sierra filed this application on December 31, 1999, in compliance with Decision (D.) 97-12-093 which required that a PBR proposal be filed no later than December 31, 1999. The proposal is set forth in Appendix A attached to the application.

In compliance with Rule 6(a)(1) of the Commission's Rules of Practice and Procedure, Sierra recommends that the application be categorized as a ratesetting proceeding, anticipates that hearings may be necessary and sets forth the issues to be considered and a recommended schedule.

Sierra believes that the issues to be considered are:

- Is the proposed Distribution PBR mechanism reasonable and in the public interest?
- Is the proposed mechanism readily understandable?
- Does the Distribution PBR:
  - offer a reasonable probability of improvement over current regulation (i.e., improving the efficiency and performance of the utility) without unreasonable jeopardy to regulatory goals?
  - improve the incentives (and remove disincentives) of the utility to reduce costs and operate efficiently?
  - provide predictable long-term incentives?
  - simplify and streamline (reduce the burden and expense of) regulatory oversight both for the Commission and for Sierra?
  - provide a stable and predictable regulatory environment?
  - fairly and symmetrically balance risk and reward for the utility?
  - maintain a reasonable opportunity for the utility to earn a fair rate of return?
  - allow management to focus primarily upon costs and markets rather than on Commission proceedings?
  - align the interests of utility shareholders with those of utility customers?
  - maintain and improve the quality of service?

Sierra proposes the following schedule:

January 3, 2000	Application Filed
Jan. or Feb. 2000	Prehearing Conference
Jan.—Feb. 2000	Discovery
March 2000	Intervenor Testimony on the Proposed PBR
April—May 2000	Discovery on Intervenor Testimony
June 2000	Sierra's Cost of Service Study Filed (separate filing)
June 2000	Sierra Rebuttal
July 2000	Hearings
August 2000	Concurrent Briefs
September 2000	Proposed Decision
October 2000	Commission Decision

The Office of Ratepayer Advocates (ORA) filed a protest, arguing that the application should be dismissed without prejudice in order to allow Sierra to complete its cost of service analysis and cost of capital analysis and other underlying studies and workpapers that are necessary to support the application. ORA argues that while it agrees with Sierra's recitation of the Commission's goals for PBRs, the application does not provide adequate details that are necessary for the Commission to determine if Sierra's proposed PBR mechanism will help achieve those goals.

ORA also argues that the schedule proposed by Sierra is untenable in proposing a prehearing conference and discovery in January and February with intervenor testimony in March 2000.

ORA cites as deficiencies the lack of any supporting documentation or workpapers regarding reliability, customer satisfaction, or any other proposed PBR measures. Most importantly, in ORA's view, Sierra proposes the starting

point for the distribution PBR to be the rates resulting from Sierra's cost of capital and cost of service studies. However, the cost of capital study will not be filed until May 2000 and the cost of service study will not be filed until June 2000. Consequently, those studies will not be available for evaluating the reasonableness of Sierra's PBR mechanism until months after intervenor testimony would be due under Sierra's proposed schedule.

More specifically, ORA notes that Sierra proposes to base its rate indexing on distribution PBR components approved for, or proposed by major California energy utilities. These components include an escalation factor, an output adjustment, a productivity offset, and update mechanisms. Sierra proposes to use the change in consumer price index for its escalation factor, without justification. An output adjustment is not included, but Sierra uses a productivity factor of 1.6%, which is the same as the Commission adopted for Southern California Edison Company (Edison) and San Diego Gas & Electric Company (SDG&E). Sierra provides no supporting documentation.

Sierra also proposes to compare actual annual rate of return (ROR) to an imputed ROR, with the Commission's decision on its cost of service reflecting the adopted cost of capital for Sierra. ORA argues that it cannot review the reasonableness of this proposal without the cost of service and cost of capital studies which will not be available until May and June 2000, respectively.

Sierra proposes to base its Employee Safety Performance Indicator, on the Occupational Safety and Health Administration (OSHA) lost-time accident frequency standard or incident rate for its California employees based on 1995 through 1999 historic data. ORA notes that Sierra did not provide any documentation to support the reasonableness of such a benchmark.

In Chapter 5 of Attachment A, Sierra proposes that its Customer Favorability Performance Indicator be based on a monthly customer satisfaction

survey of its California customers, with a benchmark based on historical information using 1998 through September 1999. ORA notes that Sierra did not provide any supporting workpapers to substantiate the reasonableness of the benchmark.

Finally, Sierra proposes a System Average Interruption Duration Index and System Average Interruption Frequency Index as System Reliability Performance indicators with target benchmarks based on their historic average for the five-year period of 1994 through 1998. ORA states that it is unable to review the reasonableness of these benchmarks without supporting workpapers or documentation.

In summary, ORA states that the above examples are not exhaustive, but rather are representative of lack of adequate supporting documentation and outright deficiencies in the application. ORA recommends that the Commission acknowledge that Sierra's application met the technical requirement of D.97-12-093 by filing by the required date, and that it be allowed to resubmit a PBR application with the necessary workpapers and documentation.

### **Conclusion**

While it is not unusual for intervenors to need further information or documentation to support a utility's application, in this instance it appears clear that Sierra has not met a reasonable standard of supporting documentation.

A proposal for a PBR mechanism is important and deserves adequate review and consideration by the Commission, and we rely on the participation of intervenors such as ORA. We observe that not only are supporting documents lacking in critical areas of the application, but as ORA notes, the proposed schedule would, in effect, put the cart before the horse regarding the cost of service and cost of capital studies that are necessary here, and cause substantial

waste of time and effort for the Commission and intervenors in processing this application.

We recognize that Sierra has complied with D.97-12-093 in filing this application by the end of 1999, and conclude that it should be dismissed without prejudice against filing a later application with adequate documentation and at a time when the cost of service and cost of capital studies are available.

### **Comments on Draft Decision**

The draft decision of Administrative Law Judge Stalder in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(g) and Rule 77.1 of the Rules of Practice and Procedure. No comments were received.

### **Findings of Fact**

1. Sierra has complied with the filing requirement of D.97-12-093.
2. This application is deficient because it does not include supporting workpapers or other documentation to support the recommendations therein.
3. Sierra's proposed schedule is unworkable.
4. This application cannot be processed until adequate supporting documentation is available
5. Sierra's cost of service study will not be available until May 2000.
6. Sierra's cost of capital study will not be available until June 2000.

### **Conclusions of Law**

1. This application should be dismissed without prejudice.
2. Sierra may refile an application for approval of a PBR mechanism when adequate supporting documentation including its cost of capital and cost of service studies are available.

**O R D E R**

**IT IS ORDERED** that:

1. Application (A.) 99-12-041 satisfies the Decision 97-12-093 deadline for filing an application with the Commission for a Performance-Based Ratemaking mechanism.
2. A.99-12-041 is dismissed without prejudice.
3. This proceeding is closed.

This order is effective today.

Dated May 4, 2000, at San Francisco, California.

LORETTA M. LYNCH  
President  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
RICHARD A. BILAS  
CARL W. WOOD  
Commissioners