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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

I. D. # 1871

ENERGY DIVISION **RESOLUTION E-3794**

April 3, 2003

R E S O L U T I O N

Resolution E-3794. Mountain Utilities requests approval to revise its rate schedules to eliminate a subsidy between customer classes. The revisions will result in a rate increase of approximately 16.71% to generation and distribution charges. In addition, Mountain Utilities is requesting to revise its tariff schedules to delete outdated rates.

By Advice Letter 18-EA Filed on October 9, 2002.

SUMMARY

This Resolution approves, with conditions, Mountain Utilities (MU) requests for authorization to eliminate a subsidy between customer classes and to delete outdated rates from its tariff sheets. MU indicated that the elimination of this subsidy would be revenue neutral to the utility. However, it will not be revenue neutral to its customers. There will be an increase of approximately 16.71% to generation and distribution charges. Depending on the customer class, the overall rate increase is from 12.65% to 13.17%. Kirkwood Associates, Inc. (KAI) bills will decrease because of the removal of this subsidy. The following are the conditions:

1. MU shall establish a revenue neutral balancing account so that the rate increase resulting from the elimination of the subsidy between customer classes will be revenue neutral.

2. MU shall file quarterly reports on its revenue neutral balancing account to the Energy Division.

3. MU shall maintain detailed records of it actual generation, actual meter sales, line and distribution losses, powerhouse losses, and improvements to its electric system.

4. Through an advice letter MU shall file revised tariff sheets to identify the powerhouse/line and distribution losses (PLDL) surcharge as a separate line item to generation and distribution charges. This advice letter shall also include a Preliminary Statement describing the revenue neutral balancing account and its maintenance.

5. The effective date of Advice Letter 18-EA is today.

BACKGROUND

On January 20, 1999, MU filed application (A.) 99-01-037 to request approval from the Commission to define its revenue requirements and increase rates and charges for electric service.

On December 2, 1999, in Decision (D) 99-12-006 the Commission with modifications approved the settlement agreement between MU, the Office of Ratepayer Advocates (ORA), and Kirkwood Associates, Inc. (KAI). Included in this Settlement Agreement was Tariff Schedule A-3 – Large General Service that stated the bill amount for KAI is the total generation minus the total monthly electric billings from metered MU customers. KAI paid for all line and distribution losses and powerhouse losses. During this time period KAI was not metered.

On September 5, 2002, MU filed Advice Letter 18-E that requested authorization to eliminate a subsidy between customer classes (all customer classes would now pay a proportionate share of the line and distribution losses and powerhouse losses) and to delete outdated rates from its tariff schedules. This elimination resulted in an approximate 7.30% increase to the generation and distribution charges.

On September 20, 2002, the Energy Division (ED) requested that MU provide additional information to Advice Letter 18-E that included an explanation of a negative Lost & Unaccounted data for May 2002. In addition, ED informed MU it was not in compliance with General Order (G.O.) 96-A, Section III. G. 5 that states in part “Utilities requesting authority to increase rates by advice letter filing…shall give written notification to each customer of the present and proposed rates, including the increase in dollar percentage terms and a brief statement of the reasons the increase is sought or required.” In addition, G.O.

96-A, Section III. G. 5 indicated that this notification to customers shall be made at the time the advice letter is filed with the Commission.

On October 9, 2002, MU filed Advice Letter 18-EA that replaced Advice Letter 18-E in its entirety. The increases to the generation and distribution charges were revised to approximately 16.71%.

On November 3, 2002, Snowcrest Lodge Homeowners Association filed a protest to MU's Advice Letter 18-EA.

On November 4, 2002, John V. Copren filed a protest to MU's Advice Letter 18-EA.[1]

MU responded to the protests of John V. Copren and Snowcrest Lodge Homeowners Association[2] on November 11, 2002 and November 27, 2002 respectively.

NOTICE

Notice of AL 18-EA was made by publication in the Commission's Daily Calendar. MU did not mail and distribute a copy of the advice letter in accordance with Section III-G. 5 of General Order 96-A. The Energy Division instructed MU to comply with Section III-G. 5 of General Order 96-A.

PROTESTS

The Snowcrest Lodge Homeowners Association and John V. Copren protested Advice Letter 18-EA.

[1] It was indicated in the protestant's letter that MU's letter notifying its customers of Advice Letter 18-EA was not mailed until October 21, 2002 and did not include the CPUC's address.

[2] MU indicated that although the protest letter was dated November 3, 2002, it did not receive a copy until November 22, 2002.

John V. Copren expressed the following concerns:

1. The letter notifying MU’s customers of Advice Letter 18-EA was mailed twelve days after the utility filed the advice letter to the CPUC. In addition, the protestant indicated that the CPUC address was not included in the notification letter. This made it impossible for a protest to be filed within the twenty-day protest period.

2. The protestant does not believe that the line and powerhouse losses are reasonable (or that MU’s method to calculate the losses are reasonable).

3. Based upon rate increases that have recently occurred on his bills, the protestant does not believe the increase requested in Advice Letter 18-EA is reasonable. The protestant brings up a situation in which an improper installed meter caused an increase to his billing.

Snowcrest Lodge Homeowners Association had the following concerns:

“1. Is this level of line loss typical for a utility district of this size?

2. Were adequate steps taken to determine the source of the line loss? (Information we received suggests it was more of a simplistic conclusion without proper finding of cause.)

3. Is MU following industry-accepted standards for tracking, analyzing and reporting their production and delivery endeavors?”

In addition, Snowcrest Lodge Homeowners Association had concerns if the methodology MU used to calculate their 16.71% rate increase (to generation and distribution charges) is reasonable.

MU responded to the protests of John V. Copren and the Snowcrest Lodge Homeowners Association on November 11, 2002 and November 27, 2002 respectfully.

The following are MU's responses to John V. Copren concerns:

- MU did not address John V. Copren's first concern.

- With respect to the second concern, MU states that due to current tariffs, KAI has paid for all line losses, meter inaccuracies and power plant use on MU's system. Meters have been installed for KAI. KAI and MU are corporate affiliates. The metering of KAI will enable the accurate identification of line losses and power plant use so that MU and its affiliate "may act at arms' length with respect to one another. Advice Letter 18-EA furthers that by spreading losses and power plant use equitably among all MU customers, as is done by other electric utilities in California."

  MU states it "is operating a legacy system and with the existing infrastructure, a 10.8% line loss percentage is not unusual."

  MU believes that the protest should be denied since the "protestant questions MU's line loss figure but explains no basis for the claim, other than the issue of the installation years ago of an inappropriate meter" (which is discuss below).

- With respect to the third concern, MU states that it recently discovered that an incorrect meter had been installed at the multi-family dwelling when it was contracted where the protestant lives. The results were that the residences of this dwelling were paying approximately 75% of the electricity they were using. Consequently, KAI ended up paying the difference. By installing the correct meter, these customers are now paying the appropriate amount.

  MU states that the Commission should deny the protest regarding the incorrectly installed meter. In addition, the protest regarding the increase in rates should be denied since the increase was approved in MU's GRC (D.99-12-006).

The following are MU's responses to Snowcrest Lodge Homeowners Association concerns:

- With respect to the first concern, MU replied, "Available data indicates that MU's distribution loss factor falls within the envelope of conditions reported by other Utilities, both large and small. MU is operating a legacy system and with existing infrastructure, a 10.8% distribution loss percentage is not unusual." MU gave as examples the nine jurisdiction of the Maine Public Utilities Commission that reported system losses of up to 18%, Sierra Pacific Company's line loss factor of 8.66%, and jurisdictions in Australia.

  MU states, "The protest regarding this issue raises no substantive matters and should be denied."

- With respect to the second concern, MU, in part, states in its response, "Distribution loss factors are integral to electric systems. In the case of MU's system, known and accepted metering information from MU's system has been used for years so that one customer underwrote the cost of operating the system to the benefit of the rest of the customers. The addition of metering for the Kirkwood Resort is a result of Commission concerns about appropriate separation of affiliates. MU staff and consultant developed the information used for filing of the advice letter. The consultant is known and respect for dealing with energy issues."

  MU states, "the protest regarding this issue indicates unfamiliarity with electrical systems and should be denied."

- In respect to the third concern, MU's response in part states, "Testing, analyzing and reporting are expensive, time consuming and produce variable accuracy based upon the time of year the tests are conducted due to the variances in demand load. MU's current equipment and procedures are adequate for a micro-utility serving only a few hundred customers. Future system upgrades are anticipated to improve MU's system and information gathering ability."

> MU indicates that it is in the process of making improvements to their system. MU believes that the "protest regarding this issue would raise unnecessary barriers to better system operations and should be denied."

DISCUSSION

Mountain Utilities provides electric service to approximately 500 customers in the small and geographically isolated community of Kirkwood[3], California. Electric service is provided through six diesel-powered generators that MU owns. The electricity is delivered through a 12 kV underground distribution network.

KAI[4] is the largest energy user of MU's customers. KAI uses approximately 70% of MU's total winter energy production and approximately 55% of MU's total summer production. MU states it "believes that it serves approximately 100 – 175 full-time residential domestic customers. Seasonal and vacation use of rental properties and second homes comprise the remaining residential load."
MU states that is does not have any contracts to purchase power from any qualifying facilities or other generators. In addition, MU states that is has no full-time employees. It has a contract with KAI to provide the necessary labor in its energy production.[5]

In Advice Letter 18-EA, MU is requesting authorization to eliminate the practice of subtractive billing to determine the billing amount for KAI. This practice had been necessary in the past since KAI was not metered. The lack of meters prevented the determination of the consumption by the distributed facilities owned and operated by KAI and served by MU. Since energy costs have increased and future demand planning was being completed, both parties agreed

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[3] MU serves the Kirkwood community except for the Kirkwood Meadows Public Utility District.

[4] KAI is the parent company of MU.

[5] D.99-12-006 requires that "all personnel who perform work both for KAI and MU must record the amount of time spent working for each entity."

that is made sense to install meters. Recently meters were installed at both KAI and at the MU's powerhouse.

MU has indicated that the elimination of the subsidy will be revenue neutral to the utility. It will not maintain equal charges to MU's customers. MU provided the following information regarding the revisions to the generation and distribution charges for each customer class:

Class	Present	Proposed	Change Amount	% Change
Domestic Service – Schedule D-1				
Generation Charges:				
Baseline Quantities	$0.17476	$0.20397	$0.02921	16.71%
Non-Baseline Quantities	$0.19223	$0.22436	$0.03213	16.71%
Distribution Charges:				
Baseline Quantities	$0.05825	$0.06799	$0.00974	16.72%
Non-Baseline Quantities	$0.06408	$0.07479	$0.01071	16.71%
Small General Service – Schedule A-1				
Large General Service – Schedule A-3				
Service to Government Agencies – Schedule GA				
Generation Charge:	$0.18000	$0.21008	$0.03008	16.71%
Distribution Charge:	$0.06000	$0.07003	$0.01003	16.71%

MU provided the following overall comparison of its customer's monthly bills with the revisions to the rate schedules in eliminating the subsidy between customer classes:

	Present	Proposed	Amount Increase	Percent Increase
Residential – Winter	$ 150.63	$ 170.08	$ 19.45	12.91%
Residential – Summer	$ 77.25	$ 87.03	$ 9.77	12.65%
Small General Service	$ 444.03	$ 501.87	$ 57.84	13.03%
Large General Service	$161,768.27	$183,080.94	$21,312.67	13.17%
Governmental Agency	$ 14,151.51	$ 16,015.55	$ 1,864.04	13.17%

KAI will be receiving lower bills since it would no longer be totally responsible for line and distribution losses and powerhouse losses.

MU provided 14 months of line loss data and 7 months of powerhouse loss data to support the line losses of 10.8% and powerhouse losses of 3.52%. (This was the timeframe in which both KAI and the powerhouse had their meters installed.) In addition, MU used its 2002 forecast generation from its 1999 General Rate Case[6] to develop the proposed new total system average rate of $0.28011/kWh.

In review of MU's Advice Letter 18-EA, the elimination of the subsidy that currently exists between the customer classes is reasonable. Since KAI has had meters installed, it is appropriate that KAI pay for only the electricity it uses instead of using the subtractive method. However, we have concerns regarding the data that was used to support the proposed increases to the customer classes, as described below.

1. There is limited line loss and powerhouse loss data.

   MU provided limited data to support the development of its 10.8% line loss (14 months) and 3.52% powerhouse loss (7 months). While we understand that line losses occur, it is difficult to ascertain if the amounts developed by MU are reasonable.

   In MU's response to the Snowcrest Lodge Homeowners Association, MU indicated that its "distribution loss factor falls within the envelope of conditions reported by other utilities, both large and small. MU is operating a legacy system and with existing infrastructure, a 10.8% distribution loss percentage is not unusual." MU provided as examples the nine jurisdictions of the Maine Public Utilities Commission that reported system losses of up to 18%, Sierra Pacific Company's line loss factor of 8.66%, and jurisdictions in Australia.

   In the review of the examples that MU provided, the following were noted:

   - System losses within the nine jurisdictions of the Maine Public Utilities Commission ranged between 4.1% and 18.0%. ED's discussions with

[6] MU's Application 99-01-037 was its first General Rate Case with the CPUC.

the utility that had line losses of 18% revealed that the utility is located on a island off the coast of Maine and receives its electricity from underwater cables from another utility in Maine.

- Sierra Pacific Company is an investor owned utility that provides electric service to approximately 310,000 customers of which 44,500 are located in California. The remaining customers are located in northern Nevada. About one half of the electricity Sierra Pacific Company provides is produced at its own power stations in Nevada and the rest is purchased from the wholesale market.

It is difficult to determine from the examples that MU provided and the limited MU data if the line losses of 10.8% and the powerhouse losses of 3.52% are reasonable.[7]

2. The use of the 2002 forecast generation of 10,887,706 kWh from the 1999 General Rate Case to derive the rate factor.

   While MU used the GRC 2002 forecast generation of 10,887,706 kWh to develop its proposed rate of $0.28011/kWh, the MU's actual 2002 generation was 6,801,197 kWh.[8] MU indicated that its current generation and meter sales were reduced and it no longer had a contract with one of its large customers, Kirkwood Meadows Public Utility District (KMPUD).[9] KMPUD had used approximately 7-8% of MU's total produced energy.

3. MU indicated in D.01-04-031 and D.01-09-047, effective September 20, 2001, it received authorization to borrow $4 million.[10]

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[7] In addition, this data was different from what was originally submitted in Advice Letter 18-E.

[8] While reviewing this advice letter, MU provided various 2002 actual generation and actual meter sales data to ED staff.

[9] MU indicated that KMPUD has not been a customer for the past two years.

[10] The decisions indicate that approximately $3,225,579 and $974,782 were allocated to the electrical system and propane system respectively. The $500,000 was for the repayment of a short-term debt.

> These decisions show that the loan would be used "for system safety and operations improvement. The project consists of: 1) building a powerhouse to add generation, switching capacity, and supporting equipment; 2) procure new transformers; 3) replace distribution system switchgear; and 4) upgrade metering system."
>
> MU indicated that it has spent $500,385 in Fiscal Year (FY) 2002[11] and has so far spent $884,454 in FY 2003 towards the above improvements. Due to these improvements it is likely that the line and distribution losses and powerhouse losses will be reduced.

Based on the above, it is reasonable to set up a revenue neutral balancing account to ensure that the proposed increase does not result in an increase in revenue due to the increase in rates. MU and ED developed a revenue neutral balancing account format. The revenue neutral balancing account will work as follows:

- The debit into this account will be the monthly actual generation kWh times the current rate approved in the MU's last GRC ($.24/kWh).
- The credit into this account will be the monthly actual meter sales kWh times the proposed rate of $.28011/kWh.
- The difference is recorded in the revenue neutral balancing account.
- The threshold amount will be positive/negative $60,000.
- Once the threshold amount is reached, MU will immediately submit an advice letter that indicates the recovery or disbursement of the $60,000. Monies will be collected or returned within three months by a surcharge or credit.
- The amount collected or returned of the $60,000 is based on customer's usage over the period of time when the threshold balance was

[11] FY 2002 is from May 1, 2001 – April 30, 2002.

accumulated, but would not exceed one year. MU shall provide notification of this recovery or disbursement to its customers.

- The interest rate applied shall be the same as used in MU current balancing account for its Diesel Fuel Balancing Account.[12] This entry will be either interest income or interest expense depending on the amount in the account.

- If the threshold is reached more than three times in one year, MU shall file an advice letter to revise the rate factor of $0.28011/kWh. This advice letter shall include the necessary documentation to support the revision.

- Upon approval of this resolution, MU shall, within 10 days file an advice letter to revise its tariff sheets to identify the powerhouse/line and distribution losses (PLDL) surcharge as a separate line item to generation and distribution charges. This advice letter shall also include a Preliminary Statement describing the revenue neutral balancing account and its maintenance. In addition, the Preliminary Statement shall include the definition of "actual generation."

- MU shall provide quarterly reporting of the activity in this balancing account to the ED.

A follow-up review of MU's tariffs revealed its Advice Letter 19-EA tariff sheets included the proposed revisions requested in Advice Letter 18-EA. Advice Letter 19-EA tariff sheets contained the increased rates for the generation and distribution charges and the deletion of the subtractive method of determining KAI's billed amount. ED approved Advice Letter 19-EA since it only requested to increase the Commission Reimbursement fee surcharge pursuant to Resolution M-4807. When it processed AL 19-EA, ED did not intend to make effective nor did we approve, any rate changes other than the Commission Reimbursement fee surcharge.

[12] DFBA uses a monthly interest rate of one-twelfth of the most recent non-financial, 3-month, commercial paper rate published in the Federal Reserve Statistical Release G.13 report.

MU is reminded that it can only implement rate increases that have been approved by the Commission. MU shall inform ED's Director by letter, within five days if it has implemented these non-approved revisions from Advice Letter 19-EA. If it has, MU will refund the monies accordingly from the time the revisions were implemented until the Commission approved the actual revisions to Advice Letter 18-EA.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived or reduced. Accordingly, this draft resolution was mailed to parties for comments. Comments were filed by __________ on __________.

FINDINGS

1. D.99-12-006 adopted a settlement between MU, ORA and KAI. Included in this settlement agreement was Tariff Schedule A3 – Large General Service that authorized subtractive billing – the difference between total generation and meter billings to KAI.

2. On September 5, 2002, MU filed Advice Letter 18-E that requested authorization to eliminate a subsidy between customer classes and to delete outdated rates from its tariff schedules. This elimination resulted in an increase of approximately 7.30% to generation and distribution charges.

3. On September 20, 2002, ED asked MU to provide additional information to Advice Letter 18-E that included an explanation of a negative Lost & Unaccounted data for May 2002.

4. MU was not in compliance with General Order (G.O.) 96-A, Section III. G. 5 that states in part "Utilities requesting authority to increase rates by advice letter filing…shall give written notification to each customer of the present and proposed rates, including the increase in dollar percentage

terms and a brief statement of the reasons the increase is sought or required."

5. On October 9, 2002, MU filed Advice Letter 18-EA that replaced Advice Letter 18-E in its entirety. This resulted in an overall increase of approximately 16.71% to generation and distribution charges.

6. Snowcrest Lodge Homeowners Association and John V. Copren protested Advice Letter 18-EA on November 3, 2002 and November 4, 2002, respectively.

7. The protestants complained about the reasonableness of the calculation of the MU's line losses and powerhouse losses in determining the overall rate increase of 16.71% to generation and distribution charges.

8. John V. Copren complained about the delay in receiving notification of Advice Letter 18-EA.

9. MU responded to the protests of Snowcrest Lodge Homeowners Association and John V. Copren on November 11, 2002 and November 27, 2002 respectively.

10. MU has limited line and distribution loss and powerhouse loss data.

11. In D.01-04-031 and D.01-09-047 MU received authorization to borrow $4 million. Approximately $3,225,579 was allocated to safety and operation improvements to its electric systems.

12. The protests of Snowcrest Lodge Homeowners Association and John V. Copren are granted regarding their concerns on the reasonableness of the line loss and powerhouse loss data. In addition, the protest regarding not receiving appropriate notification is noted. In all other respects the other protests are denied.

13. Advice Letter 18-EA should be approved with the following conditions:

    a) MU shall establish a revenue neutral balancing account.

b) MU shall file quarterly reports on its revenue neutral balancing account to the Energy Division.

c) MU shall maintain detailed records of it actual generation, actual meter sales, line and distribution losses, powerhouse loses, and improvements to its electric system.

d) Through an advice letter MU shall, within 10 days file revised tariff sheets to identify the powerhouse / line and distribution losses (PLDL) surcharge as a separate line item to generation and distribution charges. This advice letter shall also include a Preliminary Statement describing the revenue neutral balancing account and its maintenance. In addition, the Preliminary Statement shall include the definition of "actual generation."

e) The effective date of Advice Letter 18-EA is today.

14. A follow-up review of MU's tariff sheets revealed its Advice Letter 19-EA included the proposed revisions requested in Advice Letter 18-EA. ED approved Advice Letter 19-EA since it only requested to increase the Commission Reimbursement fee surcharge pursuant to Resolution M-4807.

15. MU shall inform ED's Director by letter, within five days if it has implemented the revisions requested in Advice Letter 18-EA through Advice Letter 19-EA. If it has, MU shall refund any monies from the time the revisions were implemented until the Commission approved the actual revisions to Advice Letter 18-EA.

<u>THEREFORE IT IS ORDERED THAT:</u>

1. MU Advice Letter 18-EA is approved with the following conditions:

a) MU shall establish a revenue neutral balancing account.

b) MU shall file quarterly reports on its revenue neutral balancing account to the Energy Division.

c) MU shall maintain detailed records of it actual generation, actual meter sales, line and distribution losses, powerhouse loses, and improvements to its electric system.

d) Through an advice letter MU shall, within 10 days file revised tariff sheets to identify the powerhouse/line and distribution losses (PLDL) surcharge as a separate line item to generation and distribution charges. This advice letter shall also include a Preliminary Statement describing the revenue neutral balancing account and its maintenance. In addition, the Preliminary Statement shall include the definition of "actual generation."

e) The effective date of the Advice Letter 18-EA is today.

2. The protests of Snowcrest Lodge Homeowners Association and John V. Copren are granted regarding the reasonableness of the line loss and powerhouse loss data.

3. MU shall provide future notices to its customers of rate changes per G.O. 96-A, Section III-G. 5.

4. MU shall inform ED's Director by letter, within five days if it has implemented the revisions requested in Advice Letter 18-EA through Advice Letter 19-EA. If it has, MU shall refund any monies from the time the revisions were implemented until the Commission approved the actual revisions to Advice Letter 18-EA.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on April 3, 2003; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director