

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION
Item 13 I. D. # 2844
RESOLUTION E-3849
OCTOBER 30, 2003

R E S O L U T I O N

Resolution E-3849. Mountain Utilities (MU) makes 3 proposals; 1) a procedure for regular monthly adjustments to MU's Diesel Fuel Balancing Account (DFBA) charges to reflect the volatile diesel fuel marketplace; 2) to re-establish MU's Fuel Adjustment Rate Charge and subsequently extinguish the annual Fuel Adjustment Cost Procedure within one year and; 3) Revise the refund procedure of the One-Year Forecast Diesel Fuel Expense Recovery provision to make refunds as a credit to the DFBA and delete the expired One-Year Forecast Diesel Fuel Expense Recovery provision from MU's Preliminary Statement and Rates. Approved.

By Advice Letter 20-E Filed on August 27, 2003.

SUMMARY

This Resolution authorizes MU to revise its rate schedules and Fuel Cost Adjustment Procedure to: 1) establish a procedure for regular monthly adjustments to MU's DFBA charges to reflect the volatile market for diesel fuel; 2) re-establish MU's Fuel Adjustment Rate charge and subsequently extinguish the annual Fuel Adjustment Cost Procedure within one year and, 3) revise the refund procedure of the one-year forecast diesel fuel expense recovery provision to make refunds as a credit to the DFBA. MU also requests deletion of the expired one-year forecast diesel fuel expense recovery provision from MU's Preliminary Statement and Rates, which this resolution approves.

BACKGROUND

MU serves the small isolated community of Kirkwood located near Lake Tahoe. Because MU is isolated from any transmission grid, it serves Kirkwood solely by six diesel-powered generators. MU has 535 customers, including a ski resort, some of which are seasonal and vacation use properties.

Advice Letter 11-E-A, effective January 1, 2000, established the DFBA, which allowed MU to file for increases or decreases in diesel fuel no more frequently than annually.

MU states that AL 11-E-A was a disaster to MU's limited cash flow, accumulating an unrecovered balance of \$325,000 and seriously threatened MU's ability to survive.

Decision (D.) 99-12-006 authorized a Fuel Cost Adjustment rate of \$0.7504 per gallon.

Resolution (Res) E-3752, effective August 2, 2001 allowed MU to increase its revenue requirement by \$247,631 to amortize undercollections in MU's DFBA.

Res E-3755, effective September 20, 2001 allowed MU to increase its revenue requirement another \$196,938 for a period of one year from the effective date of the resolution.

Collection of the Fuel Adjustment Rate charge, authorized by Res E-3752 in excess of the \$0.7504 produced an undercollected balance of \$163,041. Collection of the forecast Fuel Adjustment Rate charge authorized by Res E-3755 produced an overcollection of \$124,108.

MU opines that the events of September 11, 2003 depressed prices, but recently the market has seen spiking as high as \$1.40 per gallon indicating that price escalation and volatility have returned to the market.

Proposal 1

AL 20 proposes a Monthly Fuel Cost (MFC) component in its Fuel Adjustment (FA) rate that would be revised monthly to capture fuel costs in the current month and any unrecovered balance from the prior month.

AL 20 cites benefits to the ratepayers of avoiding interest charges on energy consumed in prior periods and more current price signals to encourage conservation. MU would benefit from the reduction in fuel costs it would carry on its books. MU cites D.97-10-065 relating to Pacific Gas and Electric Company's gas procurement rate tariff:

“Periodically, rates are adjusted to amortize amounts in the balancing account, or, alternatively, one-time refunds may be ordered. The result has been that the effects of variations in the supply and demand for natural gas do not affect core customers until long after the event, and core customers in any given short period are likely to be paying either more or less than they would pay for otherwise.”

MU proposes a rate adjustment based on MU’s regular seasonal consumption pattern. MU would calculate rates based on prior month unrecovered balances plus current monthly fuel costs, in excess of \$0.7504/ gallon, divided by recorded sales, then divided by historic usage factors. MU defines the monthly use factor for any given month as the fraction of the consumption of the prior month. MU said it would publish a table of monthly historic usage factors in its preliminary statement. AL 20 said such an adjustment would reduce swings in the MFC rate and expeditiously recover fuel costs.

MU would place into effect a monthly surcharge rate, initially zero, that would vary from month to month depending on the cost of diesel fuel. MU proposes to change rates under the DFBA only once per month upon 5 days written notice to the Commission to reflect changes in rates.

Proposal 2

AL 20 requests a Fuel Adjustment Rate Charge increase for all customer classes to reflect the recorded diesel cost. That rate increase is based on fiscal year 2004 annual sales at the same level as fiscal year 2003 sales. AL 20 proposes to credit the DFBA with the refund amount of \$124,108 thereby reducing the DFBA balance from \$163,041 to \$38,933. MU added an additional fuel purchase cost of \$43,762 to support fuel purchases pending approval of AL 20-E. The net rate of \$0.01295/ Kwh would collect the total of \$82,695 (\$38,933 + \$43,762) during the year that rate is in effect. The resulting rate increase would vary from 4.45% for Residential-Summer rates to 4.61% for Large General Service.

If MU is authorized to implement a monthly DFBA, it would amortize its annual Fuel Adjustment Rate Charge in approximately 12 months when the balance in its annual DFBA declines to less than \$3,000. The remaining balance would be transferred as a one-time entry to the balance in the Monthly Fuel Cost Account.

MU would then file an advice letter to advise the Commission when the annual DFBA was closed and the balance transferred to the MFC account.

Proposal 3

Res E-3755 Ordering Paragraph (OP) 3 ordered MU to file an advice letter sixty days prior to the expiration date of the Fuel Adjustment Rate requesting a refund or surcharge based on a new forecast of diesel fuel cost. The expiration date passed and MU now proposes to discontinue the forecast method of establishing fuel costs as well as the annual adjustment since prices are so volatile.

Res E-3755 OP 1 also ordered MU to increase its revenue requirement by \$196,938 for a period of one year. MU proposes to remove this provision from its Preliminary Statement.

AL 15-E-A approved by Res E-3755 authorized MU to refund with interest any overcollections at the end of the year. MU proposes to credit the \$163,041 overcollections to the DFBA. MU said the credit would stabilize utility bills and partly defray the increased bills expected as a result of the operation of the annual Fuel Adjustment Cost Procedure and reduce the costs associated with refunding directly to customers.

MU also requests authority to change the refund method established in its Preliminary Statement and authorized by Res E-3755. Instead of refunding the money as a credit to the bills of current customers, MU would credit the refund amount to the DFBA. MU said that credit would offset current diesel fuel expenses and thereby stabilize customer's utility bills rather than creating a single, one-month credit. MU also said that credit would help to defray the increased bills expected as a result of the operation of the annual Fuel Adjustment Cost Procedure and reduce the administrative costs associated with a refund.

MU would refund to ex-customers according to their consumption during the one-year period in which the AL 15-A surcharge was effective. Such a refund would amount to about \$0.01812/Kwh depending on the effective date of AL 20. MU would mail the refund to the customer's last known address. MU anticipates the amount refunded to ex-customers will be negligible.

NOTICE

Notice of AL 20-E was made by publication in the Commission's Daily Calendar. Mountain Utilities states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

No protest was filed.

DISCUSSION

In its Proposal no. 1 MU proposes to establish a Monthly Fuel Cost Adjustment and file monthly for changes in prices of diesel fuel for its generators. Data supporting AL 20 shows evidence of volatility in diesel fuel prices. MU said that revising its rates monthly would avoid interest charges, encourage conservation by providing more current signals to customers and prevent an excessive financial burden to MU. MU's proposed method of adjusting rates with a seasonal adjustment factor would tend to reduce swings in the MFC rate. We find Proposal no. 1 to be reasonable.

Proposal no. 2 commences amortization of overcollections in the DFBA plus 3 months of fuel purchases for August, September and October of 2003. MU allowed the three months to obtain Commission approval of AL 20. MU would also credit the DFBA with an undercollection. MU would amortize the \$163,041 balance in its current Fuel Adjustment Rate Charge down to \$3,000, then transfer the remaining balance to the Monthly Fuel Cost Account in about 12 months. MU proposes to then discontinue its Annual Rate Adjustment Charge. MU will file an advice letter when the DFBA is closed and the balance transferred. The Energy Division verified that MU will continue to have a positive balance in the DFBA of approximately \$82,696, assuming that the \$124,000 overcollection is transferred to the DFBA. The resulting increase of \$0.01295 / Kwh is expected to last only 12 months at which time the DFBA will be fully amortized and closed. We find Proposal no. 2 to be reasonable.

Proposal no. 3 includes a procedure to offset the DFBA by \$124,108 accumulated during the period following approval of Res E-3755, including refunds to current and previous customers. This procedure will ensure that the DFBA is amortized sooner. MU anticipates the amount refunded to ex-customers will be negligible.

We agree with MU that this procedure would help to defray the increased bills expected as a result of the operation of the annual Fuel Adjustment Cost Procedure and reduce the administrative costs associated with a refund. We find proposal no. 3 to be reasonable and we will approve it.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. MU's proposal to establish a monthly fuel cost adjustment and calculate rate adjustments monthly is reasonable.
2. MU's Fuel Adjustment Rate Charge increase to reflect the recorded diesel fuel cost is reasonable.
3. MU's proposal to discontinue its annual fuel Adjustment Rate Charge and transfer the balance remaining at the end of approximately 12 months to the Monthly Fuel Cost Account is reasonable.
4. MU's proposal to refund overcollections to its current and former customers is reasonable.

THEREFORE IT IS ORDERED THAT:

1. Mountain Utilities Advice Letter 20-E is approved.
2. Mountain Utilities shall file an advice letter when its overcollections from its DFBA are amortized down to less than \$3,000 and the balance is transferred to Monthly Fuel Cost account.

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 October 30, 2003; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director