

Decision 02-04-011 April 4, 2002

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of the Plumas-Sierra Rural Electric Cooperative to Amend its Certificate of Public Convenience and Necessity to Alter and Extend its Service Territory.

Application 01-10-037
(Filed October 3, 2001)

**DECISION GRANTING APPLICATION OF PLUMAS-SIERRA RURAL
ELECTRICAL COOPERATIVE TO AMEND ITS
CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY**

Summary

We grant Plumas-Sierra Rural Electric Cooperative's (PSREC's) request to amend its Certificate of Public Convenience and Necessity (CPCN).¹ PSREC is herein granted our approval to alter and extend its service territory to include customers now served by Lassen Municipal Utility District (LMUD). In granting this approval, pursuant to the California Environmental Quality Act (CEQA), we have considered any possible environmental consequences under which such a project might otherwise merit further scrutiny. The Commission is satisfied that the Lead Agency (LMUD) has fulfilled its obligation concerning issues specific to environmental impacts. LMUD has determined that this service area transfer is exempt from CEQA under Guidelines Section 15061 (b)(3) and, accordingly as Lead Agency, filed with the Commission its Notice of Exemption dated January 4, 2002. The Commission remains unaware of any information which

¹ See Decision No. 47989, adopted December 2, 1952 (52 Cal. P.U.C. 238)

would not support its finding of exemption from CEQA for this project. Furthermore, PSREC asserts that it has successfully worked with LMUD to establish a plan that is fair and reasonable to transfer four LMUD customers and that it is now fully equipped to manage such an undertaking.

PSREC estimates that the requested transfer of four LMUD customers into its service area will provide a net benefit to PSREC of \$700,000 per year. This net benefit is the result of a more efficient compact electric system for PSREC without adding additional costs for maintenance or distribution operations. This means that rate increases estimated for 2003 affecting existing PSREC customers will be reduced by approximately 8% from those rates otherwise estimated for 2003.

In the process of overseeing and evaluating the public interest as it relates to the service territory transfer, the Commission has considered other implications of this transfer, such as rate effects on both existing and transferred customers as well as increased operating efficiencies for all concerned. Since such efficiencies positively influence all California electric energy users, we find PSREC's request to be both reasonable and of benefit to all California energy users.

No protests have been received by the Commission, and there is no apparent reason why this application request should not be granted. On that basis, it is agreed that a public hearing is not necessary and that the preliminary determinations stand on their merits.

Summarily, we find the transfer to be both reasonable and in the public interest; accordingly, PSREC's request to amend its CPCN should be approved.

Background

PSREC filed an application on October 3, 2001 to amend its CPCN. PSREC requests approval to transfer four customers currently served by LMUD to

PSREC service. A fifth customer, a new federal prison under construction, would be added in the future. Customers to be transferred reside within the Sierra Army Depot (SIAD) in Herlong.² On February 25, and March 1, 2002, PSREC, in response to questions by the assigned Administrative Law Judge, filed supplemental information to its application. The supplemental information provides additional details regarding the physical and economic changes anticipated as a result of the transfer of service territory and customers from LMUD to PSREC, and a copy of the Electric and Economic Stabilization Planning Agreement between PSREC and LMUD executed July 25, 2001.

PSREC states that it currently serves about 5,000 square miles of territory, 6,500 customers and has about \$33 million in physical plant, and that the proposed transfer will add approximately 35 square miles of new territory, and about \$10,000 in new physical plant. PSREC asserts that the proposed transfer of customers and service territory has benefits both for PSREC and for LMUD. The benefits for PSREC are a result of distribution economics that allow PSREC to add the four new customers, but only incur minor amounts of additional distribution costs. PSREC explains that the transfer of territory and customers will not require any new PSREC utility service staff since the transferred territory is adjacent to the existing PSREC service territory. As a result, the gross revenues provided by the four transferred customers less the cost of power, payments to LMUD and minimal distribution costs result in an estimated net benefit to PSREC of \$700,000 per year. As explained by PSREC, this net benefit will decrease the amount of future rate increases for existing PSREC customers by an estimated 8%. This means that rates for all customers projected to increase by

² See Page 1 of Application, and Exhibit D, Assessor's Map County of Lassen

12% in 2004, will only increase by 4% due to the net benefit provided by the four new customers. In addition, PSREC projects significant electric rate reductions for the four transferred customers. These rate reductions are a result of the substantial difference between LMUD and PSREC rates. Current LMUD rates are 40% to 50% greater than comparable PSREC rates. Although LMUD is projecting a rate decrease, the amount of the decrease will be less than the current 40-50% differential. As a result, PSREC estimates that the electric rates of the four transferred customers after the LMUD decrease will continue to be less than LMUD rates.³

PSREC's application states that the proposed transfer of customers and service territory also provides benefits to LMUD and its customers. First, as a result of the transfer LMUD will be able to abandon its current distribution line to these customers. The abandonment of this distribution line constructed in the 1940s will reduce LMUD maintenance costs. Secondly, LMUD will avoid having to invest millions of dollars in line extensions at the far end of its system to serve the new federal prison. Investing millions of dollars at this time is particularly troublesome for LMUD since it was greatly impacted by the problems affecting the California power market and needs to conserve cash to comply with bond requirements. Thirdly, LMUD will receive \$105,000 per year from PSREC as a result of the negotiations regarding the proposed customer transfer.⁴

³ PSREC projects that future rates of the four transferred customers under PSREC service will be 15-20% less than LMUD service rates.

⁴ As explained on pages 3-5 of the Electric and Economic Stabilization Planning Agreement these payments are to provide some compensation to LMUD for the loss of revenues attributable to the transferred customers. Payments are based on \$100,000 per year for each full year that the Sierra Army Depot is a retail customer of PSREC, and \$5,000 per year for each full year that the Fort Sage Unified School District is a retail

Footnote continued on next page

The supplemental information provided by PSREC describes other indirect benefits achieved as a result of the proposed transfer of customers and service territory. These indirect benefits are a result of the lower electric rates realized by two of the transferred customers, SIAD and the new federal prison. As explained by PSREC, SIAD announced that without lower electric rates, which impact SIAD operating costs, it would attempt to self-generate its energy. SIAD faces the alternative possibility that due to high operating costs it might close during the next round of military base closures, thus impacting 400 jobs in Lassen County. PSREC contends that the proposed transfer of SIAD from LMUD to PSREC service provides desired lower energy rates and reduces the potential for closure or self-generation. As also described in the supplemental information provided by PSREC, LMUD faced the possibility that the new federal prison would not become a LMUD customer. In order to serve the new prison, LMUD would need to invest millions of dollars in line extensions and upgrades of its system. PSREC argues that it is likely these costs would be charged to the prison and that the prison would view such increased costs as excessive. PSREC further argues that if future federal legislation allows federal entities, including the prison, to “shop” for lower electric rates, LMUD could lose the prison as a future customer. PSREC contends that these potential outcomes for SIAD and the federal prison provide further arguments supporting PSREC’s request to extend its service territory. PSREC concludes that as a result of extending its service territory and adding these new customers to PSREC service,

customer of PSREC. Payments commence after transfer from LMUD to PSREC service, and continue until 2010. In addition, after the federal prison is constructed and if it receives energy from PSREC, then PSREC will make \$50,000 per year payments to LMUD for each full year the prison remains a customer of PSREC until 2010.

both LMUD and PSREC will operate more efficiently thus improving the economy of Lassen County.

PSREC states that it does not generate any energy, but that as a member of the Northern California Power Agency (NCPA) it receives all power through Pacific Gas and Electric Company (PG&E). PSREC also states that NCPA has analyzed and modeled the impact of the proposed transfer of customers and service territory from LMUD to PSREC, as well as future growth in PSREC's system for the next ten years. Currently, PSREC projects a peak load of 26 megawatts (MW) for its existing system, an additional 4 MW with the transfer of the four new customers, and 2 MW in 2003 due to completion of the new federal prison. A summary of NCPA's energy load analysis is attached as Exhibit B to PSREC's February 25, 2002 supplemental information. The analysis assesses the impact of an additional load of 10 MW during the peak summer loading period on PG&E's transmission system supplying energy to PSREC. The analysis indicates no appreciable problems on the system and that the loading is well within the capacity of the lines involved.

PSREC indicates its only system concern regarding future energy growth is maintaining adequate voltage in Lassen County. Although PSREC has already installed a voltage regulator to insure adequate voltage for the five new customers, excessive customer growth beyond 2004 could cause voltage problems. In order to maintain adequate voltage PSREC has identified two solutions. The first solution is an interconnection or intertie between the PSREC and LMUD electric systems. PSREC indicates LMUD has already committed to supporting this intertie if necessary. The second solution is to expand the current Demand Management System (DMS) program used by PSREC to reduce voltage demand. PSREC states that the current DMS program has sufficient participants to avoid voltage problems through 2004. PSREC believes that an expanded DMS

program could solve future voltage problems, and possibly indefinitely postpone any interconnections or interties with other utilities.

PSREC states that the switching of the system from LMUD to PSREC does not pose any additional safety risks beyond normal utility operations. PSREC states this switching is a simple procedure requiring coordination between PSREC and LMUD and can be accomplished in about one hour.

California Environmental Quality Act (CEQA)

The California Environmental Quality Act (Public Resources Code Section 21000, et seq., hereafter “CEQA”) applies to discretionary projects to be carried out or approved by public agencies. A basic purpose of CEQA is to “inform governmental decision-makers and the public about the potential, significant environmental effects of the proposed activities.” (Title 14 of the California Code of Regulations (CCR), hereinafter “CEQA Guidelines,” Section 15002).

The proposed amending of the CPCN for PSREC and extending of its service territory is subject to CEQA and the Commission must issue a discretionary decision without which the proposed changes to the CPCN cannot proceed. Under CEQA this Commission must act as either a Lead or Responsible Agency. The Lead Agency is the public agency with the greatest responsibility for supervising or approving the project as a whole.⁵

In this instance LMUD is the Lead Agency for this project under CEQA, and the Commission is a Responsible Agency. As the Lead Agency, LMUD on January 4, 2002 filed a Notice of Exemption for this project. LMUD determined that the project was exempt from CEQA under Guidelines Section 15061(b)(3), which provides an exemption “where it can be seen with certainty that there is

⁵ CEQA Guidelines Section 15051(b)

no possibility that the activity in question may have a significant effect on the environment”

As a Responsible Agency, the Commission’s role is therefore limited to reviewing the environmental consequences of the proposed transfer of customers and service territory from LMUD to PSREC as part of its discretionary approval of this application. In general, the Commission must consider the Lead Agency’s Environmental Impact Report or Negative Declaration prior to acting upon or approving the project.⁶ We are not aware of any information which would suggest the Lead Agency’s finding of exemption was not reasonable or in error. Accordingly, we find that the Lead Agency reasonably concluded in its Notice of Exemption that the application by PSREC to amend its CPCN to alter and extend its service territory will have no significant environmental effect and that no mitigation measures or consideration of alternatives are required.

Discussion

PSREC is an electrical cooperative as defined in Pub. Util. Code § 2776.⁷ PSREC was issued a CPCN in Decision (D.) 47989, issued on December 2, 1952. D.47989 provided that the lands of the Sierra Army Depot were certified to California Pacific National, later purchased by the LMUD. Although Applicant is exempt from regulation of its rates, debt or property,⁸ it is subject to Part 1 of the Public Utilities Act, including § 1001, in regard to its certificated service area.⁹

⁶ CEQA Guideline Section 15050(b).

⁷ All references are to the Public Utilities Code unless otherwise noted.

⁸ See § 2777.

⁹ See § 2778.

PSREC states it has worked with LMUD to devise a fair and reasonable plan¹⁰ to transfer all customers associated with the current and former Sierra Army Depot property from the LMUD service area to that of PSREC as that property is described in Exhibits D and E attached to the application. PSREC asserts the transfer of customers will provide economic benefits, avoid economic burdens for LMUD and provide rate stability. Furthermore, PSREC has detailed how these benefits will accrue to current customers of PSREC and LMUD, as well as the customers transferred from LMUD to PSREC service. As provided in Exhibit B attached to the application, LMUD has agreed to relinquish the four affected customers and approved the transfer through its Board of Directors. PSREC asserts its position of being ready, willing and able to serve these customers.

As shown in Exhibit C attached to the application, a compilation of letters from the four transferred customers in support of the transfer to PSREC service, all affected customers support the proposed transfer. These four customers are SIAD (the United States Department of the Army), Citizens Communications, Susanville Indian Rancheria, and the Fort Sage Unified School District. In addition, as described in the supplemental information, the Federal Bureau of Prisons has requested service by PSREC. Given the benefits of significant rate reductions for these customers this support is understandable. No protests or responses to the proposed application as amended have been filed.

We have considered the application of PSREC as amended and the support indicated by the LMUD and all affected customers. Although PSREC is exempt

¹⁰ This plan is described in the Economic and Stabilization Planning Agreement filed as Supplemental Information, March 4, 2002.

from regulation of its rates, debt or property, we have considered other implications of this transfer of customers and service territory, including issues such as rate effects on both existing and transferred PSREC and LMUD customers. While these are unregulated issues, we believe that our approval of the application should consider any possible effects that might significantly affect customers outside of PSREC's service territory. In this instance we find that there are benefits for both the transferred LMUD customers, and the existing customers of PSREC and LMUD due to increased operating efficiencies,¹¹ as well as benefits that will improve the overall economy of Lassen County. Therefore, we find that the application is reasonable, in the public interest, and should be adopted.

In Resolution ALJ 176-3076 dated November 29, 2001, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. There is no apparent reason why this application should not be granted. Given these developments, a public hearing is not necessary, and it is not necessary to disturb the preliminary determinations.

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

¹¹ As stated by PSREC this transfer of customers and extension of service territory will allow LMUD to abandon its old distribution line and provide customers access to the adjacent PSREC system which will improve the efficiencies of both PSREC and LMUD. Improvements in the operating efficiencies of individual utilities positively influence all California electric energy users.

Findings of Fact

1. The Plumas-Sierra Rural Electric Cooperative (PSREC) is an electrical cooperative as defined by Pub. Util. Code § 2776.
2. PSREC was granted a certificate of public convenience and necessity in D.47989, issued on December 2, 1952.
3. D.47989 certified those lands of the Sierra Army Depot to California Pacific National, later purchased by the Lassen Municipal Utility District (LMUD).
4. LMUD and PSREC have devised a fair and reasonable plan to transfer customers of the Sierra Army Depot to PSREC.
5. The transfer of customers is intended to provide economic and rate stability for LMUD customers and PSREC members.
6. LMUD is the Lead Agency for the project under CEQA.
7. On January 4, 2002, LMUD filed a Notice of Exemption, which found that pursuant to CCR Section 15061(b)(3) the activity cannot possibly have any potential for a significant effect upon the environment and, therefore, is not subject to CEQA.
8. The Commission is a Responsible Agency for the project under CEQA.
9. This application is supported by LMUD and the four customers that will be transferred to PSREC service.
10. The Federal Bureau of Prisons has requested electric service from PSREC for its new federal prison.

Conclusions of Law

1. The application of PSREC to amend its Certificate of Public Convenience and Necessity is reasonable, is in the public interest, and should be approved.
2. PSREC is exempt under Section 2777 from regulation of rates, debt or property.
3. We adopt the Lead Agency's finding of CEQA exemption for our decisionmaking purposes as a responsible agency for this project.

O R D E R

Therefore, **IT IS ORDERED** that:

1. Plumas-Sierra Rural Electric Cooperative's request to amend its Certificate of Public Convenience and Necessity is granted.
2. This proceeding is closed.

This order is effective today.

Dated April 4, 2002, at San Francisco, California.

LORETTA M. LYNCH
President
HENRY M. DUQUE
CARL W. WOOD
GEOFFREY F. BROWN
MICHAEL R. PEEVEY
Commissioners