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BEFORE THE ARIZONA CORPORATION COMMISSION

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CARL J. KUNASEK
Chairman
JIM IRVIN
Commissioner
WILLIAM MUNDELL
Commissioner

Arizona Corporation Commission

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AZ CORP COMMISSION
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JUN 30 1999

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IN THE MATTER OF THE COMPETITION)
IN THE PROVISION OF ELECTRIC) DOCKET NO. RE-00000C-94-0165
SERVICES THROUGHOUT THE STATE)
OF ARIZONA.)

IN THE MATTER OF THE FILING OF)
ARIZONA PUBLIC SERVICE)
COMPANY FOR APPROVAL OF ITS) DOCKET NO. E-01345A-98-0473
PLAN FOR STRANDED COST RECOVERY)

IN THE MATTER OF THE FILING OF)
ARIZONA PUBLIC SERVICE COMPANY)
OF UNBUNDLED TARIFFS PURSUANT) DOCKET NO. E-01345A-97-0773
TO A.A.C. r14-2-1601 ET SEQ.)

COMMENTS OF UTILITY.COM, INC. ("UTILITY.COM"), PHASER
ADVANCED METERING SERVICES ("PHASER"), AND SCHLUMBERGER
ON SETTLEMENT AGREEMENT FILED BY
ARIZONA PUBLIC SERVICE COMPANY ("APS")
ON MAY 17, 1999 ("SETTLEMENT")

Utility.com, PHASER, and SCHLUMBERGER hereby file comments in the
above-captioned proceeding on the proposed Settlement filed by APS.

Background

Utility.com is a registered Energy Service Provider in California and one of only two companies actively selling competitive electricity to residential and small business customers throughout the state. Utility.com is also the first company to file for a license to sell competitive power in Nevada. Utility.com has been active in regulatory proceedings throughout the U.S. and has testified before various state legislatures and regulatory commissions, as well as providing invited testimony before the Commerce Committee of the U.S. House of Representatives. Utility.com currently plans to offer services in Arizona as well, after obtaining a Certificate of Convenience and Necessity ("CC&N").

PHASER is a division of Public Service of New Mexico. It is a registered Meter Service Provider ("MSP") in California and has obtained a CC&N to offer metering services in Arizona's competitive electricity market. PHASER has been an active participant in regulatory proceedings and metering working groups, including chairing working groups, in Arizona, Nevada, and California.

SCHLUMBERGER is an international provider of metering products and services and is currently a registered provider of direct access metering services in several states and is currently pursuing certification in Arizona as both a Meter Service Provider and a Meter Data Management Agent.

Billing and Metering Adjustments

Utility.com and PHASER commend the Settlement parties on working together in the spirit of cooperation to introduce competition and its benefits to Arizona's consumers quickly. However, utility.com and PHASER respectfully urge the Commission to require that the metering and billing adjustments proposed in the Settlement be modified prior to adopting the Settlement. This change is necessary in order to comply with the ACC's policy for non-discriminatory pricing established by the ACC in its final decision to open the

Arizona market to competition (Decision No. 59943, December 1996) and affirmed for public power entities by the Legislature in HB 2663.¹

In its Decision, the Commission stated: "each Affected Utility shall file Unbundled Service tariffs to provide the services listed below to all eligible purchasers on a *nondiscriminatory* basis:

1. Distribution Service;
2. *Metering and meter reading services;*
3. *Billing and collection services;*"²

(emphasis added)

In the context of Direct Access, "nondiscriminatory" can have only one meaning: that consumers are treated exactly the same whether they purchase these services from the regulated distribution utility or from a competitive supplier. Thus, a consumer who chooses a new supplier for metering and meter reading services and is no longer receiving those services from the regulated distribution utility should no longer have to pay the regulated distribution utility for those services. Unfortunately, under the adjustments proposed in the Settlement, consumers choosing new suppliers for metering and billing services would be charged twice for those services, once by their new supplier and once by their distribution utility.

Proposed Methodology and Revised Adjustments

The reason for this double charging under the Settlement is because the metering and billing adjustments are significantly less than the amounts consumers are now paying the utility for those services. Below is a listing of the proposed adjustments in the Settlement and the actual amounts consumers are now paying APS according to accounting reports filed by APS with the Federal

¹ - Section 30-805 of the Act states that "Public power entities shall: 1. Establish unbundled ancillary electric transmission and distribution and other service prices and terms and conditions that are *nondiscriminatory* and that reflect the just and reasonable price for providing the service." (emphasis added)

Energy Regulatory Commission ("FERC"). The calculation of these actual amounts is shown in Appendix A, which uses the unbundling methodology adopted by the Public Utilities Commission of Nevada, a methodology developed in a consensus process that included customer groups, the regulated utilities, consumer advocates, commission Staff, energy marketers, and others. The amounts are as follows, including new proposed adjustments that would accurately reflect the amounts now paid by consumers:

	Settlement Proposal	Amount Reported by APS to FERC	Proposed Adjustments
Meter-Residential	\$1.30	\$2.64	\$2.64
Meter-Commercial	\$4.00	\$8.13	\$8.13
Meter-Industrial	\$55.00	\$111.84	\$111.84
Meter Reading	\$0.30	\$1.43	\$1.43
Billing	\$0.30	\$4.69	\$4.69

The California Public Utilities Commission ("CPUC") and New York Public Service Commission ("NY PSC") have adopted policies that support this methodology as well. Both commissions have adopted the use of long-run marginal costs to establish billing and metering adjustments.³ The definition of these costs is straightforward. As both the CPUC and NY PSC determined, over the long-run, all costs associated with the provision of a service can be eliminated by the incumbent service provider. In its order, the NY PSC more specifically defined this as follows, "We will require that utilities use, for now, long run

² - Decision No. 59943, Appendix A.

³ - CPUC Decision 98-09-070, September 17, 1998 and NY PSC Case 94-E-0952 - In the Matter of Competitive Opportunities Regarding Electric Service, Order Providing for Competitive Metering, June 16, 1999. The CPUC adopted short-run avoided costs as its methodology during California's rate freeze, while

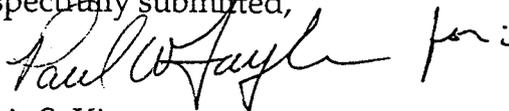
avoided costs for [metering] services to establish backout credits in the filings pursuant to this order. The utilities' cost of service is a reasonable proxy for long run avoided costs for this purpose." (at 19) The FERC-based methodology adopted in Nevada calculates this cost of service.

Utility.com and PHASER respectfully submit that consumers in a competitive market should not have to pay for services they are not receiving. For this reason, and to implement the Commission's articulated policy of non-discrimination in pricing of billing and metering services, utility.com and PHASER respectfully urge the Commission to adopt adjustments that reflect the amounts consumers are now paying APS for these services, when consumers elect to take these services from a competitive provider. In addition, utility.com and PHASER believes that the methodology used in Nevada is a reasonable methodology for use in Arizona, because it relies on audited and reported financial data, was developed in a consensus-based process, and has been sanctioned by regulators.

acknowledging that it resulted in some double charging, and adopted a policy that would implement long-run marginal costs after the rate freeze.

Utility.com and PHASER appreciate the opportunity to comment on the Settlement.

Respectfully submitted,

Handwritten signature of Paul W. Faylor in cursive, followed by the word "for:".

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Appendix A

Meter and Billing Adjustment Calculation

Arizona Public Service Company

Sources: FERC Form 1 Reports, December 31, 1998 and 1997

Common Cost and Admin. & General Calculation

	Recorded Amount	Proposed Settlement Adjustment	Utility.com Proposed Adjustment
A&G Plant Alloc. on O&M Wages & Salaries At Year End (FERC F1 Accts 390-398, p. 337.1)	\$ 211,716		
Annual Depreciation Rate (average of lines 33-41, FERC F1 p.337.1)	6.08%		
Depreciation Expense (calculated)	\$ 12,870		
Long Term Debt Rate (FERC F1 p.218@l.3d)	6.95%		
Long Term Debt Portion of Capital (FERC F1 p.218)	48.58%		
Long Term Debt Expense (calculated)	\$ 7,149		
Preferred Stock Rate (FERC F1 p.218@l.4d)	9.75%		
Preferred Stock Portion of Capital (FERC F1 p.218)	4.35%		
Preferred Stock Expense (calculated)	\$ 899		
Common Equity Rate (FERC F1 p.218@l.5d)	11.25%		
Common Equity Portion of Capital (FERC F1 p.218)	47.06%		
Income Tax Rate (estimated)	40.00%		
Common Equity Expense (calculated)	\$ 19,882		
Total Annual Cost (calculated)	\$ 39,600		
Admin. and General - Operation - Admin. & General Salaries (FERC F1 Acct 920, p.322@l.151b)	\$ 29,210		
Admin. and General - Operation - Office Supplies (FERC F1 Acct 921, p.322@l.152b)	\$ 15,478		
LESS: Admin. and General - Operation - Admin. Transf. Credit (FERC F1 Acct 922, p.322@l.153b)	\$ 7,680		
Admin. and General - Operation - Outside Services Employed (FERC F1 Acct 923, p.323@l.155b)	\$ 7,712		
Admin. and General - Operation - Injuries & Damages (FERC F1 Acct 925, p.323@l.157b)	\$ 5,128		
Admin. and General - Operation - Emp. Pensions & Benefits (FERC F1 Acct 926, p.323@l.158b)	\$ 38,297		
Admin. and General - Operation - Reg. Comm. Expenses (FERC F1 Acct 928, p.323@l.160b)	\$ 7,891		
Admin. and General - Operation - Rents (FERC F1 Acct 931, p.323@l.164b)	\$ 3,429		
Admin. and General - Maintenance - Maint. General Plant (FERC F1 Acct 935, p.323@l.167b)	\$ 9,544		
Total Accounts for Allocation on O&M Wages & Salaries (calculation)	\$ 123,369		
TOTAL ANNUAL A&G COST ALLOCATED ON O&M WAGES & SALARIES (calculated)	\$ 162,969		

Total Non-A&G Wages & Salaries Calculation

Wages & Salaries - Production (FERC F1, p. 354)	\$	53,997
Wages & Salaries - Transmission (FERC F1, p. 354)	\$	4,988
Wages & Salaries - Distribution (FERC F1, p. 354)	\$	12,241
Wages & Salaries - Customer Accounts (FERC F1, p. 354)	\$	20,194
Wages & Salaries - Customer Service (FERC F1, p. 354)	\$	1,802
Wages & Salaries - Sales (FERC F1, p. 354)	\$	11,943
TOTAL NON-A&G WAGES & SALARIES (calculated)	\$	105,165

Meter Ownership Expenses

Depreciable Plant in Service-Meters At Year End (FERC F1 Acct 370, p. 337.1)	\$	127,952
Annual Depreciation Rate (FERC F1 Acct 370, p.337.1)		4.54%
Depreciation Expense for Meters (calculated)	\$	5,809
Long Term Debt Rate (FERC F1 p.218@i.3d)		6.95%
Long Term Debt Portion of Capital (FERC F1 p.218)		48.58%
Long Term Debt Expense (calculated)	\$	4,320
Preferred Stock Rate (FERC F1 p.218@i.4d)		9.75%
Preferred Stock Portion of Capital (FERC F1 p.218)		4.35%
Preferred Stock Expense (calculated)	\$	543
Common Equity Rate (FERC F1 p.218@i.5d)		11.25%
Common Equity Portion of Capital (FERC F1 p.218)		47.06%
Income Tax Rate (estimated)		40.00%
Common Equity Expense (calculated)	\$	11,291
Common Cost and A&G Allocation (zero as not allocated against capital accounts)	\$	—
TOTAL ANNUAL COST OF OWNERSHIP (calculated)	\$	21,963
Residential Customers (1998 SEC 10K Report)		709,111
Commercial Customers (1998 SEC 10K Report, includes Agricultural)		85,455
Industrial Customers (above 3 MW, estimate)		100
RESIDENTIAL COST, TOTAL (allocated using Settlement class allocation)		15,953
COMMERCIAL COST, TOTAL (allocated using Settlement class allocation)		5,915
INDUSTRIAL COST, TOTAL (allocated using Settlement class allocation)		95
RESIDENTIAL MONTHLY METER COST PER CUSTOMER, OWNERSHIP	\$	1.87
COMMERCIAL MONTHLY METER COST PER CUSTOMER, OWNERSHIP	\$	5.77
INDUSTRIAL MONTHLY METER COST PER CUSTOMER, OWNERSHIP	\$	79.32

Meter Operation and Maintenance Expense

Meter Expense (FERC F1 Acct 586, p.322@l.110b)	\$	4,305
Maintenance of Meters (FERC F1 Acct 597, p.322@l.123b)	\$	91
Distribution - Operations Supervision & Engineering (FERC F1 Acct 580, p.321@l.103b)	\$	1,516
Total Distribution Operations Expense (FERC F1, p.322@l.114b)	\$	18,674
Prorate Allocation of Distribution - Operations Supervision & Engineering (calculation)	\$	349
Distribution - Miscellaneous Expenses (FERC F1 Acct 588, p.322@l.112b)	\$	7,029
Total Distribution Operations Expense (FERC F1, p.322@l.114b)	\$	18,674
Prorate Allocation of Distribution - Miscellaneous Expenses (calculation)	\$	1,620
Maintenance - Maintenance Supervision & Engineering (FERC F1 Acct 590, p.322@l.116b)	\$	719
Total Distribution Maintenance Expense (FERC F1, p.322@l.125b)	\$	27,612
Prorate Allocation of Maintenance - Maintenance Supervision (calculation)	\$	2
Maintenance - Maintenance of Miscellaneous Distribution Plant (FERC F1 Acct 598, p.322@l.124b)	\$	5,721
Total Distribution Maintenance Expense (FERC F1, p.322@l.125b)	\$	27,612
Prorate Allocation of Maintenance - Maintenance of Miscellaneous Distribution Plant (calculation)	\$	19
Subtotal, Metering O&M	\$	6,387
Total Distribution O&M (FERC F1, p.322, l.126)	\$	46,286
Metering O&M as proportion of Total Distribution O&M	13.80%	
Metering Wages & Salaries (same proportion)	\$	1,689
Common Cost and A&G Allocation using Wages & Salaries	\$	1,61%
Common Cost and A&G Allocation (calculation)	\$	2,618
TOTAL ANNUAL COST OF OPERATIONS AND MAINTENANCE (calculation)	\$	9,005
Residential Meters		709,111
Commercial Meters		85,455
Industrial Meters		100
RESIDENTIAL COST, TOTAL (allocated using Settlement class allocation)		6,541
COMMERCIAL COST, TOTAL(allocated using Settlement class allocation)		2,425
INDUSTRIAL COST, TOTAL (allocated using Settlement class allocation)		39
RESIDENTIAL MONTHLY METER COST PER CUSTOMER, MAINTENANCE	\$	0.77
COMMERCIAL MONTHLY METER COST PER CUSTOMER, MAINTENANCE	\$	2.37
INDUSTRIAL MONTHLY METER COST PER CUSTOMER, MAINTENANCE	\$	32.52

Total Meter Expense

RESIDENTIAL MONTHLY METER COST PER CUSTOMER, TOTAL	\$	2.64	\$	1.30	\$	2.64
COMMERCIAL MONTHLY METER COST PER CUSTOMER, TOTAL	\$	8.13	\$	4.00	\$	8.13
INDUSTRIAL MONTHLY METER COST PER CUSTOMER, TOTAL	\$	111.84	\$	55.00	\$	111.84

Meter Reading Expense

Meter Reading (FERC F1 Acct 902, p.322@l.130b)	\$	5,891		
Customer Accounts - Supervision (FERC F1 Acct 901, p.322@l.129b)	\$	2,357		
Total Customer Accounts Expense (FERC F1, p.322@l.134b)	\$	30,124		
Prorate Allocation of Customer Accounts - Supervision (calculation)	\$	461		
Customer Accounts - Miscellaneous Customer Accounts (FERC F1 Acct 905, p.322@l.133b)	\$	1,828		
Total Customer Accounts Expense (FERC F1, p.322@l.134b)	\$	30,124		
Prorate Allocation of Accounts - Miscellaneous Customer Accounts (calculation)	\$	357		
Subtotal, Meter Reading O&M	\$	6,709		
Total Customer Accounts O&M (FERC F1, p.322)	\$	30,124		
Metering O&M as proportion of Total Customer Accounts O&M		22.27%		
Meter Reading Wages & Salaries (same proportion)	\$	4,498		
Common Cost and A&G Allocation using Wages & Salaries		4.28%		
Common Cost and A&G Allocation (calculation)	\$	<u>6,970</u>		
TOTAL ANNUAL COST OF OPERATIONS AND MAINTENANCE	\$	13,679		
Total Number of Customers		794,666		
TOTAL ANNUAL COST OF METER READING	\$	17.21		
TOTAL MONTHLY COST OF METER READING PER CUSTOMER	\$	1.43	\$	0.30
			\$	1.43

Billing Expense

Customer Records and Collection (FERC F1 Acct 903, p.322@l.130b)	\$	18,266		
Uncollectible Accounts (FERC F1, Acct 904, p.322)	\$	1,781		
Customer Accounts - Supervision (FERC F1 Acct 901, p.322@l.129b)	\$	2,357		
Total Customer Accounts Expense (FERC F1, p.322@l.134b)	\$	30,124		
Prorate Allocation of Customer Accounts - Supervision (calculation)	\$	1,569		
Customer Accounts - Miscellaneous Customer Accounts (FERC F1 Acct 905, p.322@l.133b)	\$	1,828		
Total Customer Accounts Expense (FERC F1, p.322@l.134b)	\$	30,124		
Prorate Allocation of Accounts - Miscellaneous Customer Accounts (calculation)	\$	1,217		
Subtotal, Billing O&M	\$	22,832		
Total Customer Accounts O&M (FERC F1, p.322)	\$	30,124		
Billing O&M as proportion of Total Customer Accounts O&M		75.79%		
Billing Wages & Salaries (same proportion)	\$	15,306		
Common Cost and A&G Allocation using Wages & Salaries		14.55%		
Common Cost and A&G Allocation (calculation)	\$	<u>23,719</u>		
TOTAL ANNUAL COST OF OPERATIONS AND MAINTENANCE	\$	44,770		

Total Number of Customers

794,666

TOTAL ANNUAL COST OF BILLING

\$

56.34

TOTAL MONTHLY COST OF BILLING PER METER

\$

4.69

0.30

\$ 4.69

Appendix B

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

In Re Application of SIERRA PACIFIC POWER)
COMPANY for approval of its proposed unbundling) Docket No. 97-11018
methodology.)
_____)

In Re Application of NEVADA POWER COMPANY) Docket No. 97-11028
for approval of its proposed unbundling methodology)
_____)

COST UNBUNDLING CONSENSUS REPORT NO. 2
RESOLUTION OF FINAL ISSUES

March 19, 1998

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EXECUTIVE SUMMARY

By a second interim order dated March 5, 1998 the Commission requested that the parties to Docket Nos. 97-11018 and 97-11028 submit to the Commission:

(a) A single report that describes:

- Those remaining issues, with the exception of the demarcation of transmission and distribution facilities, on which consensus was reached, with a full explanation of all such issues, and
- Those remaining issues on which consensus could not be reached, with neutral language describing the different positions and the proposed schedule for resolution by the Commission of these issues.

In order to accomplish this task, the parties met in person on March 16, 1998. Additionally, substantial communication was done via the Internet. All parties participated in the drafting of this document, subject of course, to their right to file testimony on March 19th where they may wish to clarify their positions.

As used in this report, the term "Commission" refers to the Public Utilities Commission of Nevada and the term "FERC" refers to the Federal Energy Regulatory Commission. Unless otherwise stated the term "utilities" refers to Nevada Power Company, sometimes referred to as NPC or Nevada Power, and Sierra Pacific Power Company, sometimes referred to as SPPCo or Sierra Pacific. The term "parties" refers to all those parties listed in this report that participated in this endeavor and the preparation of this report.

The report is organized into seven sections described as follows:

- ◆ A list of the participants.
- ◆ Part I: Methodology for unbundling System Black Start and Backup Supply
- ◆ Part II: Separation of Generation costs into Capacity and Energy components
- ◆ Part III: Separation of Customer Accounting costs into Billing and Account Services
- ◆ Part IV: The direct assignment/allocation of FERC Account 930.2XX

- ◆ Part V: The assignment of Step-up Transformers and Generation Connection Lines to Generation
- ◆ Part VI: A section on other issues that the parties believe should be brought to the attention of the Commission.

Conclusion/Position of the Parties

Substantial consensus was reached on all of the issues included in this report. The parties wish to express their appreciation to the Commission for allowing them the opportunity to address these issues.

A copy of this report in electronic WordPerfect 8 format is enclosed for the convenience of the Commission and the Parties.

CONSENSUS WORKSHOP PARTICIPANTS¹

SIERRA PACIFIC POWER COMPANY

Bob Silva
Dan Ahrens
Connie Westadt
Brent Ingebrigtsen
Duane Nelson
Gary Porter

NEVADA POWER COMPANY

Gail Sinobio
Michael Schmidt
Robert Crowell
George Kelly
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SOUTHERN NEVADA WATER AUTHORITY/LAS VEGAS VALLEY WATER DISTRICT

Robert Marshall
Dennis Peseau
George Carter

LAS VEGAS CO-GEN LP

Norman Ty Hilbrecht

¹ A list of these participants with all addresses, telephone numbers and e-mail addresses can be found at the end of this report.

Consensus Report No. 2

Part I

System Black Start and Backup Supply

This portion of the consensus report addresses the issues involved with unbundling the costs for System Black Start Capability and Backup Supply.

System Black Start Capability:

Nevada Power does not have any units capable of providing system black start and therefore will not assign any costs to this service.

Sierra Pacific has units capable of black start, however, FERC Order 888 identifies this as an optional service. Neither Nevada Power nor Sierra include this service in their open access transmission tariff. Thus, at this time, Black Start is not a service offered.

If the utilities are either obligated or elect to file a separate FERC ancillary service tariff for black start capability, the parties agree that the terms of the service should be based on the costs used to support the tariff. If at such time as Nevada deems it necessary to implement such a generation tariff, and no FERC tariff exists as a model, the parties agree that the terms of such service should be determined by rules and under the procedure then applicable for new service tariff filings with the Commission and based on any applicable FERC non-tariff black start capability pricing principles.

Back-up Supply:

The parties recommend that no methodology is necessary for Back-up supply. This recommendation is made for the following reasons:

- 1) This service, as defined by the Commission's unbundling order, is not currently offered as a separate service at either the FERC level or the state level. While the utilities have stand-by rates for certain co-generators, this is not the same service contemplated by the Commission (it includes bundled transmission and distribution costs) and as such is inapplicable as a model to use for unbundling. While there may be a time when a retail generation tariff is required at the state level, there is no such tariff under state jurisdiction at this time.
- 2) Currently, back-up supply as contemplated by the Commission's order, is an optional component of FERC transmission ancillary services, but it may also be a retail service.
- 3) If the utilities are either obligated or elect to file a separate FERC ancillary service tariff for back-up supply, the parties agree that the terms of the service should be based on the costs used to support the tariff. If at such time as Nevada deems it necessary to implement such a generation tariff, and no FERC tariff exists as a model, the parties agree that the terms of such service should be determined by rules and under the procedure then applicable for new service tariff filings with the Commission and based on any applicable FERC non-tariff back-up pricing principles.

Consensus Report No. 2
Part II
Generation Capacity and Energy Costs

This portion of the consensus report addresses the separation of the Generation costs into Capacity and Energy components.

The latest revision of the Embedded Cost of Service Study (MS-2 REVISED), which was distributed during the February 17th hearing, contains a proposed methodology for separating generation costs into capacity and energy components. The model indicates that capacity costs are the fixed generation costs (e.g. plant in service, taxes, insurance, fuel stock, etc...) and the energy costs are the variable generation costs (e.g. fuel, water, chemical, etc...). Historically generation costs have been separated into these components for the purpose of designing demand and energy rates. The parties believe this methodology is sufficient for unbundling purposes to meet the terms of the Commission order.

Given that it is a pricing issue, the parties wish to emphasize that in that context, there may be other methods of setting prices, including but not limited to, marginal costing methods. Further, market power and must run considerations may call for a second look at these pricing methodologies.

Consensus Report No. 2
Part III
Customer Accounting Costs

This portion of the consensus report addresses the allocation of the Customer Accounting Costs to the sub-categories of Billing and Account Services. In the interim order dated March 5, 1998 the Commission expanded the Account Services function to include Customer Information and Data Processing, Payment Collection and Processing and Uncollectibles.

The parties agreed to recommend to the commission the following two options:

- 1) The comments filed for the Potentially Competitive Service portion of the Commission's investigation indicate that there would be a joint provision of Billing and Customer Accounting services. That is, those services would be offered together, thus eliminating the need to unbundle. The parties believe that it may not be necessary to unbundle these costs any further at this time.

- 2) In order to further unbundle these costs into Billing and Account Services, the utilities propose to use data gathered from internal department and accounting information. The parties are cognizant of the Commission's decision on internal accounting systems in relation to the allocation of Common Plant and A&G costs, but in this limited application, feel their use is appropriate to further unbundle these costs.

Consensus Report No. 2
Part IV
FERC Account 930.2XX

This portion of the consensus report addresses the assignment of costs included in the FERC accounts 930.XXX - Miscellaneous General Expense, in particular the costs in the sub-accounts 930.2XX.

During the February 17th hearing it was discussed that the handling of this account determined in the February 2nd Consensus report may not be appropriate. That report stated that all costs in account 930.XXX should be directly assigned to Public Goods. During the hearings it was suggested that portions of the 930.2XX charges be assigned direct and the remainder be allocated based on the wages and salaries allocator.

This led to some further evaluation of the accounts, which involved the use of data gathered from internal department and accounting information. There are specific FERC sub-accounts that are appropriate for direct assignment to other functions, for example, Nevada Power account 930.209 - RG4 A&G Expenses Billed, should be directly assigned to Generation. Where direct assignments cannot be made, the remaining costs will be allocated based on the default wages and salaries allocator.

Consensus Report No. 2
Part V
Step-up Transformers and Generation Connection Lines

This portion of the consensus report addresses the assignment of the costs associated with step-up transformers and generation connection lines to the generation function. Figure V-1 shows the facilities that are being assigned to the generation function. Attachment CR2-A contains a list of NPC's and SPPCo's generators. Each generator has a step-up transformer and a connection line associated with it. Attachment CR2-B lists the criteria that was used in determining the appropriate classifications.

The following describes the proposed methodology that will be used to arrive at the costs:

Generator Step-Up Transformers

- 1) Identify which step-up transformers are currently booked to the transmission plant accounts.
- 2) Identify the original cost of the step-up transformers directly from the accounting records.
- 3) Calculate depreciation and other costs associated with these assets.
- 4) Transfer costs to the generation total on MS-2 and reduce the transmission total by the same amount.

Generator Connection Lines

It may not be possible to isolate, from the accounting records, the costs of the connection lines that are associated with each of the generating units. Where possible, the actual book values for generator connection lines will be identified and appropriate transfers made. Where generator connection lines cannot be identified within the plant records, the following proposed methodology would be used:

- 1) Estimate the current installed cost of a generator connection line.
- 2) Apply a discount rate/construction cost index to the current cost, to determine the cost that would have been incurred at the time the generating unit was actually installed.
- 3) Calculate depreciation and other costs associated with these assets.
- 4) Transfer costs to the generation total on MS-2 and reduce the transmission total by the same amount.

Note: Any facility costs that have been accounted for as a Contribution in Aid of Construction (CIAC) will not be transferred to the generation function. These facilities are not included in rate base.

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Part VI

Other Issues

1) One remaining unresolved issue is Distribution Reactive Supply and Voltage Control. At this time there is no methodology that can effectively identify or unbundle these costs, but the parties agree that the terms of the service should be based on the costs used to support any tariff. Additionally, the parties agreed to continue to review accounting records to try to unbundle these costs for use in the future.

2) The Commission's March 5, 1998 order adopted the parties' request that street lighting be a separate unbundled service. The parties agreed to unbundle the costs associated with this service in the same manner that Meter Ownership and Meter O&M were unbundled from Distribution.

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Attachment CR2-A
Generating Units

A. Nevada Power Company

Company Owned	Qualifying Facilities
Harry Allen Unit #1	Nevada Sunpeak Limited Partnership
Clark Unit #1	Saguaro Power Company
Clark Unit #2	Las Vegas Cogeneration. Limited Partnership
Clark Unit #3	Nevada Cogeneration Associates #1
Clark Unit #4	Nevada Cogeneration Associates #2
Clark Unit #5	
Clark Unit #6	
Clark Unit #7	
Clark Unit #8	
Clark Unit #9	
Clark Unit #10	
Sunrise Unit #1	
Sunrise Unit #2	
Reid Gardner Unit #1	
Reid Gardner Unit #2	
Reid Gardner Unit #3	
Reid Gardner Unit #4 ¹	
Navajo Unit #1 ¹	
Navajo Unit #2 ¹	
Navajo Unit #3 ¹	
Mojave Unit #1 ¹	
Mojave Unit #2 ¹	

Notes:

- (1) For purposes of this cost unbundling proceeding, these facilities have been classified as generation costs. Nevada Power's ownership in the step-up transformers at these plants are governed by various agreements between Nevada Power and other parties. Therefore, in some instances, it may not be possible from a contractual standpoint to isolate the step-up transformer from the other facilities that are governed by the ownership agreements.

B. Sierra Pacific Power Company

Company Owned	Qualifying Facilities
26' Drop (TCID)	Ace Hereford
Battle Mountain Diesels	Amor II - Empire
Brunswick Diesels	Beowawe
Fort Churchill Unit #1	Brady's Power Partners
Fort Churchill Unit #2	California Energy Company - Desert Peak
Fort Churchill Reserve Station Service	Far West I
Kings Beach Diesel	Far West I-A
Lahontan Power House (TCID)	Far West Capital II
North Valmy Unit #1	Far West Capital III
North Valmy Unit #2	Holman
North Valmy Reserve Station Service #1	Hooper
North Valmy Reserve Station Service #2	Sierra Pacific Industries
Portola Diesels	Soda Lake I & II
Tracy Unit #1	Stillwater I
Tracy Unit #2	TAD's
Tracy Unit #3	TAD's II
Tracy Unit #4 (Pinon Pine)	TCID Hydro
Tracy Unit #5 (Pinon Pine)	Yankee-Caithness
Tracy Station GT #2	
Clark Mt #3 Combustion Turbine	
Clark Mt #4 Combustion Turbine	
Clark Mt Reserve Station Service #1	
Clark Mt Reserve Station Service #2	
Valley Road Diesels	
Verdi	
Winnemucca GT	

Attachment CR2-B
Criteria for Classifying Facilities as
Generation Plant Costs

Facilities that connect generation to the grid were classified as generation costs if all of the following conditions held true:

- 1) The facility would NOT have been built if the generator didn't exist;
- 2) The transmission operator would allow the plant owner to independently operate and maintain the facility;
- 3) The facility that connects the generating unit to the grid currently serves no other retail or wholesale customer, nor is it planned to serve other customers in the future;
- 4) The facility would be required in order to connect a new generator to the grid.

The above criteria were also used to evaluate transmission facilities which connect independent power producers (IPPs) and qualifying facilities (QFs) to the grid.