

**PROPOSED REGULATION OF
THE PUBLIC UTILITIES COMMISSION OF NEVADA**

LCB File No. R116-15

November 4, 2015

EXPLANATION – Matter in *italics* is new; matter in brackets ~~omitted material~~ is material to be omitted.

AUTHORITY: §§1-19, section 1 of Senate Bill No. 151, chapter 59, Statutes of Nevada 2015, at page 251.

A REGULATION relating to utilities; establishing the required contents of an application for a gas infrastructure expansion activity; authorizing the amendment of a certificate of public convenience and necessity to include an area in a proposed gas infrastructure expansion activity; requiring a public utility to provide certain notices of a gas infrastructure expansion application; establishing certain requirements governing rates and the recovery of certain costs associated with a gas infrastructure expansion activity; requiring a public utility to seek a determination of prudence for certain costs associated with a gas infrastructure expansion activity; requiring a public utility to file certain annual status reports for a gas infrastructure expansion activity; and providing other matters properly relating thereto.

Legislative Counsel's Digest:

Existing law requires the Public Utilities Commission of Nevada to adopt regulations authorizing a public utility which purchases natural gas for resale to expand the infrastructure of the public utility in a manner consistent with a program of economic development. (Section 1 of Senate Bill No. 151, chapter 59, Statutes of Nevada 2015, at page 251)

Section 14 of this regulation establishes the required contents of a public utility's application for a gas infrastructure expansion activity.

Section 15 of this regulation provides that a public utility may seek to amend its certificate of public convenience and necessity to include an area in a proposed gas infrastructure expansion activity that is not already included within the public utility's certificated service area.

Section 16 of this regulation requires a public utility that files a gas infrastructure expansion application to provide certain notices of the application to certain existing and prospective customers, the Regulatory Operations Staff of the Commission and the Bureau of Consumer Protection in the Office of the Attorney General.

Section 17 of this regulation sets forth certain requirements governing rates and the recovery of certain costs associated with a gas infrastructure expansion activity.

Section 18 of this regulation requires a public utility to seek a determination of prudence for the recorded costs of a gas infrastructure expansion activity in the first general rate application filed after the approval of a gas infrastructure expansion rate which accounts for the recovery of such costs. **Section 18** further prescribes the information relevant to a determination of prudence which must be filed with the general rate application.

Section 19 of this regulation requires a public utility to file an annual status report for each approved gas infrastructure expansion activity and sets forth the required contents of such a status report.

Section 1. Chapter 704 of NAC is hereby amended by adding thereto the provisions set forth as sections 2 to 19, inclusive, of this regulation.

Sec. 2. *As used in sections 2 to 19, inclusive, of this regulation, unless the context otherwise requires, the words and terms defined in sections 3 to 13, inclusive, of this regulation have the meanings ascribed to them in those sections.*

Sec. 3. *“Direct benefits” means benefits which are quantifiable to the extent possible, including, without limitation, economic benefits, environmental benefits and operational efficiencies, and enhanced reliability of service that customers of a public utility which purchases natural gas for resale who are specifically targeted to be served by the program of economic development may experience as a result of the gas infrastructure expansion activity.*

Sec. 4. *“Gas infrastructure” means infrastructure to be used in the delivery or supply of natural gas, including, without limitation, facilities for the storage, distribution and transmission of compressed natural gas and liquefied natural gas.*

Sec. 5. *“Gas infrastructure expansion activity” means the expansion of gas infrastructure within a geographic area in a manner consistent with a program of economic development.*

Sec. 6. “Gas infrastructure expansion application” means an application filed by a public utility which purchases natural gas for resale seeking a determination by the Commission for:

- 1. The approval of a gas infrastructure expansion activity; and*
- 2. The recovery of gas infrastructure expansion costs.*

Sec. 7. “Gas infrastructure expansion costs” means all prudent and reasonable costs incurred to develop and construct a gas infrastructure expansion activity.

Sec. 8. “Gas infrastructure expansion rates” means the rates established by the Commission for the purpose of collecting the revenue requirement associated with the gas infrastructure expansion costs.

Sec. 9. “Indirect benefits” means benefits which are quantifiable to the extent possible, including, without limitation, environmental benefits and operational efficiencies, and enhanced reliability of service that customers of a public utility which purchases natural gas for resale who are not specifically targeted to be served by the program of economic development may experience as a result of the gas infrastructure expansion activity.

Sec. 10. “Program of economic development” has the meaning ascribed to it in subsection 3 of section 1 of Senate Bill No. 151, chapter 59, Statutes of Nevada 2015, at page 251.

Sec. 11. “Revenue requirement” means an amount equal to depreciation expense, carrying costs and property taxes once the public utility which offers natural gas for resale incurs the property taxes. As used in this section:

1. *“Carrying costs” means the return on gas infrastructure expansion costs, adjusted for accumulated depreciation and accumulated deferred income taxes, utilizing the public utility’s authorized pretax rate of return.*

2. *“Depreciation expense” means the return of gas infrastructure expansion costs utilizing the public utility’s authorized rate of depreciation.*

Sec. 12. *“Underserved” means a geographic area in which gas infrastructure exists but access is not economically feasible for certain households or businesses.*

Sec. 13. *“Unserved” means a geographic area in which no gas infrastructure or natural gas service exists.*

Sec. 14. 1. *A gas infrastructure expansion application must be supported by sworn testimony and must include, without limitation:*

(a) A description of the proposed gas infrastructure expansion activity.

(b) To the extent the proposed gas infrastructure activity seeks to provide natural gas service to an unserved or underserved area, a map generally depicting the unserved or underserved area the public utility proposes to serve, including the relationship with existing natural gas infrastructure and customers.

(c) An estimate of the gas infrastructure expansion costs which identifies:

(1) The gas infrastructure expansion costs that are economically feasible pursuant to the public utility’s policy for the extension of existing facilities; and

(2) The gas infrastructure expansion costs that are not economically feasible pursuant to the public utility’s policy for the extension of existing facilities and a description of the proposed methodology for the recovery of such costs as required in subparagraph (1) of paragraph (f).

(d) The estimated revenue requirement associated with the gas infrastructure expansion activity which is proposed in the application.

(e) An explanation of how the proposed gas infrastructure expansion activity is consistent with a program of economic development, including, without limitation:

(1) Identification of the purposes of the proposed gas infrastructure expansion activity pursuant to subsection 3 of section 1 of Senate Bill No. 151, chapter 59, Statutes of Nevada 2015, at page 251;

(2) Projected demand and supporting materials, as required in subparagraphs (2) and (5) of paragraph (f), for each purpose identified in subparagraph (1); and

(3) Identification of the anticipated direct and indirect benefits, including the areas for each benefit, and an explanation of how the proposed gas infrastructure expansion activity is consistent with the purposes identified in subparagraph (1).

(f) The analysis conducted on the feasibility of the gas infrastructure expansion activity, including, without limitation:

(1) A detailed description of the proposed methodology for the recovery of costs which are not economically feasible as described in subparagraph (2) of paragraph (c), including, without limitation:

(I) The estimated time period for the recovery of such costs;

(II) The projected billing determinants to be used to establish the gas infrastructure expansion rates;

(III) The process for determining when the timely and complete recovery of the revenue requirement has been accomplished by the public utility and the recovery of such costs will end; and

(IV) The treatment of rates for the customers served by the gas infrastructure expansion activity when the recovery of such costs has ended;

(2) A projection of the number of customers, natural gas usage and revenues, by class of customer and class of service, by month over the time frame of the proposed methodology for the recovery of costs which are not economically feasible as described in subparagraph (2) of paragraph (c);

(3) The efforts expended by the public utility to identify potential customers in each gas infrastructure expansion activity;

(4) The estimated gas infrastructure expansion rates for each affected class of service;

(5) The economic and financial justification for the gas infrastructure expansion activity; and

(6) The mechanism that the public utility proposes to utilize to collect gas infrastructure expansion costs from customers receiving direct benefits.

2. The Commission will, not later than 210 days after the date on which a gas infrastructure expansion application is filed, issue a written order approving, disapproving or approving subject to modifications the gas infrastructure expansion application.

Sec. 15. *To the extent a proposed gas infrastructure expansion activity includes an area not included within the public utility's certificated service area, the public utility may seek to amend its certificate of public convenience and necessity as part of its gas infrastructure expansion application but must satisfy the requirements of NAC 703.175.*

Sec. 16. *1. A public utility that files a gas infrastructure expansion application pursuant to section 14 of this regulation shall provide written notice of the filing to all existing*

and prospective customers who may experience direct or indirect benefits as a result of the proposed gas infrastructure expansion activity. The written notice must include:

(a) The total amount of the increase in the public utility's revenues associated with the gas infrastructure expansion rates, stated in dollars and as a percentage;

(b) The amount of the monthly increase in charges for each affected class of customer or class of service, stated in dollars and as a percentage;

(c) A statement that customers may send written comments or protests regarding the gas infrastructure expansion rates to the Commission;

(d) A statement that the gas infrastructure expansion rates will be reviewed for reasonableness and prudence in the next general rate application filed by the public utility pursuant to NRS 704.110; and

(e) Any other information required by the Commission.

2. A copy of the notice must be provided to the Regulatory Operations Staff of the Commission and to the Bureau of Consumer Protection in the Office of the Attorney General.

3. Notice to prospective customers must be provided through the Internet website of a public utility that files a gas infrastructure expansion application and in a newspaper or newspapers of general circulation in the community where the gas infrastructure expansion activity is proposed.

Sec. 17. *1. A Commission order approving a gas infrastructure expansion activity must adopt a methodology for the recovery of the costs set forth in subparagraph (2) of paragraph (c) of subsection 1 of section 14 of this regulation by establishing gas infrastructure expansion rates that allocate the revenue requirement among customers by balancing the interests of*

customers who will receive direct benefits and customers who will receive indirect benefits from the gas infrastructure expansion activity.

2. In adopting the methodology for the recovery of costs pursuant to subsection 1, the Commission will consider:

(a) The gas infrastructure expansion costs that are economically feasible, as defined in the public utility's policy for the extension of existing facilities;

(b) The gas infrastructure expansion costs that are not economically feasible, as defined in the public utility's policy for the extension of existing facilities;

(c) The amounts that will be recovered from customers receiving direct benefits and customers receiving indirect benefits from the gas infrastructure expansion activity;

(d) The timely and complete recovery of the revenue requirement by the public utility; and

(e) The billing determinants to be used to establish the gas infrastructure expansion rates.

3. The public utility shall account for the difference between the revenue requirement actually incurred on the cumulative investment each month in the gas infrastructure expansion costs and the revenue collected through a gas infrastructure expansion rate as a deferred cost.

4. If a public utility collects all the deferred revenue requirement through a gas infrastructure expansion rate before the expiration of the time period specified in the gas infrastructure expansion application, the gas infrastructure expansion rate will terminate. A public utility may extend the gas infrastructure expansion rate beyond the time period it is proposed to be in effect if necessary to recover any deferred revenue requirement that remains uncollected. A public utility shall notify the Commission of any termination or extension of a gas infrastructure expansion rate at least 60 days before its termination or extension. The

termination or extension of a gas infrastructure expansion rate is subject to approval by the Commission.

5. The gas infrastructure expansion rates established pursuant to this section become effective with the public utility's first practicable quarterly rate adjustment following the in-service date of the gas infrastructure expansion activity.

Sec. 18. *1. A Commission order approving, denying or modifying a gas infrastructure expansion application is not a determination of prudence with respect to any execution or costs of a gas infrastructure expansion activity that is approved by the Commission and set forth in such an application.*

2. A public utility shall seek a determination of prudence in the first general rate application filed pursuant to NRS 704.110 after the costs of each gas infrastructure expansion activity are accounted for in gas infrastructure expansion rates. In the general rate application, the public utility shall submit evidence in support of the recorded cost for each gas infrastructure expansion activity completed since the last general rate application filed by the public utility, including, without limitation:

(a) Each invoice for gas infrastructure expansion costs, including invoices segregated at the project level if blanket contracts or invoices were used by the public utility;

(b) Each work order for the gas infrastructure expansion activity, including work orders segregated at the project level if blanket contracts or work orders were used by the public utility;

(c) An accounting of the labor performed by outside contractors and the public utility for the gas infrastructure expansion activity undertaken; and

(d) Any other evidence which demonstrates that the incurred costs of the gas infrastructure expansion activity were prudent, just and reasonable.

Sec. 19. *1. A public utility shall, on an annual basis, file with the Commission a status report for each approved gas infrastructure expansion activity. A status report filed pursuant to this subsection must include, without limitation:*

(a) The actual billing determinants and a comparison of those billing determinants to the projected billing determinants used to establish the gas infrastructure expansion rates;

(b) The actual revenues received from customers and a comparison of those revenues to the projected revenues;

(c) The actual gas infrastructure expansion costs and a comparison of those costs to the projected gas infrastructure expansion costs;

(d) An updated projection of all billing determinants, revenues and costs; and

(e) A calculation of the earned rate of return, annualized based on the most recently completed calendar quarter.

2. A public utility's obligation to file status reports with the Commission pursuant to subsection 1 terminates when the revenue requirement associated with the gas infrastructure expansion activity has been fully recovered by the utility.