

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

LCB File No. R078-14

May 19, 2014

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

AUTHORITY: NRS 703.025, NRS 704.210; NRS 704.110; and NRS 704.663.

Section 1. Chapter 704 of NAC is hereby amended by adding thereto the provisions set forth as sections 2 to 33, inclusive, of this regulation.

Sec. 2. *As used in sections 13 to 33, inclusive, of this regulation, unless the context otherwise requires, the words and terms defined in Sections 3 to 12, inclusive, of this regulation, have the meanings ascribed to them in those sections.*

Sec. 3. *“Cost of service” means the average embedded cost of providing water service to a particular customer class.*

Sec. 4. *“Customer class” means the customer class categories in the rate schedules under the Nevada tariff of a water utility.*

Sec. 5. *“Eligible project” means a distribution system improvement or wastewater system improvement that the Commission designates as being eligible for recovery through a system improvement charge mechanism pursuant to Section 20.*

Sec. 6. *“Distribution system” means distribution mains, valves, hydrants, service lines, meters, meter installations and other appurtenances necessary to transport treated water from the point it exits the water production facility to the point at which it is delivered to the customer.*

Sec. 7. *“Wastewater system” means wastewater mains, lift stations, facilities for wastewater treatment and other appurtenances necessary for the collection of wastewater, treatment of wastewater, reclamation of wastewater, and disposal of effluent.*

Sec. 8. *“System improvement charge” means the rate established by the Commission for the purpose of recovering the following amounts:*

- 1. The revenue requirement associated with an eligible project for which a utility files an application for a system improvement charge pursuant to Section 26;*
- 2. The revenue requirement related to eligible projects previously approved pursuant to Section 26 and currently being recovered through a system improvement charge. Revenue requirement related to previously approved eligible projects will be calculated as of the end of the month the eligible project requested pursuant to subsection 1 is placed in-service; and*

3. The amortization of the system improvement charge regulatory asset account balance for each eligible project included in the system improvement charge over a twelve-month period authorized pursuant to Section 28.

Sec. 9. *“System improvement charge project revenue requirement” or “revenue requirement” means an amount equal to depreciation expense plus carrying costs, less the depreciation expense and carrying costs associated with any plant retired by the construction of an eligible project.*

1. As used in this section:

(a) “Carrying cost” means the return on eligible project costs determined pursuant to Section 26 or, if applicable, plant retired by the construction of the eligible project costs multiplied by the utility's authorized pretax rate of return, which is calculated as follows:

Carrying cost = ((eligible project capitalized costs determined pursuant to Section 27 less accumulated depreciation or if applicable, (plant retired by the construction of the eligible project less accumulated depreciation) +/- any accumulated deferred income taxes) x (the utility's authorized pretax rate of return)

For the purpose of subsection (a), unless otherwise determined by the Commission in a water utility's general rate case, the authorized rate of return used to calculate the annual revenue requirement for the water utility shall be deemed to be 10.2 percent. The authorized pretax rate of return is calculated by adjusting the weighted average return on equity, which is deemed to be 6 percent, for federal income taxes. This weighted average return on equity is calculated using an equity ratio which is deemed to be 40 percent and a return on equity which is deemed to be 15 percent.

(b) “Depreciation expense” means the return of eligible project costs determined pursuant to Section 26 or, if applicable, plant retired by the construction of the eligible project, utilizing the utility's authorized rate of depreciation.

2. The revenue requirement will be calculated on an annual basis with the monthly revenue requirement being one-twelfth of the annual revenue requirement. The annual revenue requirement will initially be calculated using the information as of the end of the month the eligible project was placed in-service. The annual revenue requirement will be recalculated in any subsequent application to establish a system improvement charge pursuant to Section 26. The annual revenue requirement will be modified annually pursuant to Section 28.

Sec. 10. *“System improvement charge regulatory asset account” or “regulatory asset account” means an account in which a utility records the monthly revenue requirement for one or more new eligible projects, less the revenue the utility receives from an established system improvement charge.*

Sec. 11. *“Large utility” refers to a utility subject to the provisions of NRS 704.661.*

Sec. 12. *“Peak usage months” means June 1 through September 30.*

Sec. 13. *A request to recover an amount based on the anticipated effects of decreased consumption of water as the result of the implementation of a plan for water conservation or the charging of rates to encourage water conservation made pursuant to NRS 704.663(1) must be accompanied by the following information:*

- 1. The amount of adjustment requested by customer class, meter size, and if applicable, rate tier;*
- 2. The requested rates and revenue requirement with and without the requested adjustment;*
- 3. Three years of consumption data or, if not reasonable available, three years of historical consumption by customer class;*
- 4. A list of specific water conservation measures and their anticipated effects on water consumption by customer class;*
- 5. An estimate of non-discretionary water consumption by customer class;*
- 6. Any corresponding adjustments to the costs of fuel or power used for the pumping of water and the costs of chemicals used to treat water; and*
- 7. If a rate design is proposed to encourage water conservation, the utility shall provide:*
 - (a) The anticipated effect on discretionary water consumption by effected customer class and*
 - (b) The bases for any estimate of price elasticity.*

A utility may make a request pursuant to NRS 704.663(1) in conjunction with a request for the assistance of the Regulatory Operations Staff pursuant to NAC 704.622. In such instances, the Regulatory Operations Staff will assist the utility in analyzing the implementation of any water conservation measures and/or a rate design to encourage water conservation and the necessity of a related adjustment pursuant to NRS 704.663(1). The Regulatory Operations Staff will provide the analysis required by subsection 1-7, as applicable, in the draft application required by NAC 704.622(5)(b).

Sec. 14. *If a party to a general rate application filed by a utility subject to the provisions of NRS 703.663(1) proposes a rate design to encourage water conservation, that party must provide the information required by subsection 7 of Section 13.*

Sec. 15. *If the Commission approves a request made pursuant to NRS 704.663(1), the Commission may adjust the utility's authorized return on equity, as appropriate, due to the amount of adjustment approved pursuant to NRS 704.663(1).*

Sec. 16. *If the Commission approves a request made pursuant NRS 704.663(1), the approved adjustment is effective until the utility files its next general rate case pursuant to NRS 704.110.*

Sec. 17. *A request to recover the costs of providing service without regard to the difference in the quantity of water actually sold made pursuant to NRS 704.663(2) must include:*

- 1. A description of the means by which the utility proposes to decouple its revenues from the quantity of water sold by the utility, including, but not limited to, a description of:*
 - (a) The proposed decoupling methodology;*
 - (b) How the utility proposes to calculate the authorized revenues that will be used in the proposed decoupling methodology described in subsection (1)(a); and*

(c) The process by which the utility proposes to report to the Commission the annual reconciliation of its actual revenue versus authorized revenue and implement the resulting change in rates.

2. An illustration of the effect of the proposal to decouple revenue on each customer class;

3. A description of any necessary corresponding adjustments to the costs of fuel or power used for the pumping of water and the costs of chemicals used to treat water; and

4. A plan for customer education regarding the proposal to decouple the utility's revenue from the quantity of water sold by the utility.

□□ A utility may make a request pursuant to NRS 704.663(2) in conjunction with a request for the assistance of the Regulatory Operations Staff pursuant to NAC 704.622. In such instances, the Regulatory Operations Staff will assist the utility in analyzing whether there is an appropriate decoupling methodology applicable to that utility. If the Regulatory Operations Staff determines that there is an appropriate decoupling methodology applicable to the subject utility, the Regulatory Operations Staff will provide the analysis required by subsection 1-3 in the draft application required by NAC 704.622(5)(b) .

Sec. 18. *If the Commission approves a request made pursuant to NRS 704.663(2), the Commission may adjust the utility's authorized return on equity, as appropriate, due to the decoupling of revenues from the utility's quantity of water sold.*

Sec. 19. *If the Commission approves a request made pursuant NRS 704.663(2), the approved decoupling method is effective until the utility files its next general rate case pursuant to NRS 704.110. The utility must include a request to either continue or discontinue the approved decoupling method in its next general rate case.*

Sec. 20. *A request to designate a project as eligible for a system improvement charge may be included in an action plan of a large utility's resource plan filed pursuant to NRS 704.661. The request to designate a project as eligible for a system improvement charge must correspond to a new utility plant project included in the same action plan and for which the large utility seeks approval pursuant to NAC 704.5682. Utilities not required to file a resource plan pursuant to NRS 704.661 may file an application requesting designation of a project as eligible for a system improvement charge.*

Sec. 21. *A utility shall, at a minimum, submit the following information in support of a request to designate a project as eligible for a system improvement charge:*

1. A description of the project;

2. An explanation of why the project is needed;

3. The benefits resulting to the utility and its customers upon the completion of the project;

4. A statement supported by written testimony that the project is not designed to increase revenues by connecting a distribution system improvement or wastewater system improvement to new customers;

5. A statement that the project was not included in the utility's rate base in its most recent general rate case;

6. A statement that the project costs, for which recovery will be sought, represent an investment to be made by the utility and not another funding source such as a grant, developer contribution, or other form of reimbursement;

8. If not otherwise required, the utility's plans for construction and proposed schedule for construction consistent with NAC 704.568; and

9. If not otherwise required, a budget of planned expenditures consistent with NAC 704.5681.

□□A large utility shall file the information required pursuant to this section in addition to the information otherwise required to be filed in support of an element of an action plan pursuant to NAC 704.565 through 704.5688, inclusive.

Sec. 22. Within 30 days of the utility filing a request with the Commission to designate a project as eligible for a system improvement charge, the utility shall send individual notice to each customer as an insert in the bill of charges or by separate mailing notifying the customer of the proposed eligible project designation. The notice shall also contain a brief description of the need for the charge, an estimate of the potential future system improvement charge, and information on where a customer can obtain additional information regarding the charge from the utility and the Commission.

Sec. 23. Commission approval of a request to designate a project as eligible for a system improvement charge shall include an approved budget estimate for the project.

Sec. 24. All costs of a project designated as eligible for a system improvement charge by the Commission must be accounted for in the books and records of a utility separately from accounts attributable to any other activity. Each system improvement charge regulatory asset account must be maintained in a manner that will allow costs to be readily identified.

Sec. 25. The system improvement charge revenue requirement for an eligible project will begin being recorded in the system improvement charge regulatory asset account on the last day of the month the eligible project is placed in-service and ends on the date on which the project is accounted for in the rate base of the utility.

Sec. 26. An application to establish a system improvement charge must be filed within 90 days of the completion of an eligible project. The application to establish a system improvement charge must include at a minimum:

- 1. The actual cost of the eligible project supported by invoices;*
- 2. The Commission approved budget estimated for the eligible project;*
- 3. Calculation of the revenue requirement for each eligible project subject to the system improvement charge;*
- 4. The proposed system improvement charge to be collected from the utility's customers:*
 - (a) If the eligible project is a system improvement, the system improvement charge must be based upon water consumption by each customer class during the 12-month period ending on the last day of the month in which the eligible project was placed into service.*

(b) If the eligible project is a wastewater system improvement, the system improvement charge must be based upon the customer class contribution to total revenues for the 12-month

period ending on the last day of the month in which the eligible project was placed into service.

□□ The utility has the burden of proving reasonableness and prudence of the costs incurred to develop the eligible project. An application filed pursuant to this section is deemed denied if the Commission has not acted within 120 days after the date on which the application is filed.

Sec. 27. *If the Commission approves an application to establish a system improvement charge, the Commission may, in consideration of customer rate impact, limit the revenue requirement eligible for recovery through the system improvement charge to the lesser of the actual prudently incurred costs related to the eligible project or the project budget approved by the Commission pursuant to Section 23.*

Sec. 28. *A utility that is charging a system improvement charge shall file with the Commission on or before April 1 of each year following establishment of the system improvement charge an application recommending continuation of the current system improvement charge or adjustment of the system improvement charge. The application must:*

- 1. Provide the most current service improvement charge regulatory asset account balance;*
- 2. Reconcile the difference between the system improvement charge revenues and the uncollected revenue requirement; and may*
- 3. Adjust the system improvement charge to amortize the reported service improvement charge regulatory asset account balance. If no adjustment is recommended, an explanation must be provided. For any adjustment proposed, the adjustment must be:*

(a) calculated based upon water consumption by each customer class during the 12 months covered by the application for a system improvement charge associated with a distribution system improvement.

(b) calculated based upon the customer class contribution to total revenues for the 12-month period covered by the application and the number of customers billed by class during the 12-month period covered by the application for a system improvement charge associated with a wastewater system improvement.

□□ An application filed pursuant to this section is deemed denied if the Commission has not acted within 120 days after the date on which the application is filed.

Sec. 29. *The provisions of sections 30 through 32, inclusive, apply only:*

- 1. To Utilities, Inc. of Central Nevada or its successor.*
- 2. In a general rate case filed pursuant to NRS 704.110.*

Sec. 30. *1. No later than 45 calendar days prior to the filing of a general rate case pursuant to NRS 704.110, the utility shall provide test year unadjusted water consumption data in an executable format to the Regulatory Operations Staff of the Commission and the Attorney General's Bureau of Consumer Protection.*

2. Within 10 business days after receipt of the consumption data, Regulatory Operations Staff of the Commission and the Attorney General's Bureau of Consumer Protection shall notify the utility whether a class cost of service study must be filed with the general rate case application.

3. The utility will perform a class cost of service study to be filed with its general rate case application if either the Regulatory Operations Staff of the Commission or the Attorney General's Bureau of Consumer Protection properly submit notification pursuant to subsection 2 of this section.

Sec. 31. *In determining a utility's requirements to obtain revenue from each class of customers being supplied with water and in designing the rates for that service, the Commission will consider:*

1. The cost of service to each class of customers if applicable pursuant to Subsection 3 of Section 30;

2. The value of the utility's service to each class of customers and to each individual customer;

3. The ratio of the average demand for service by an individual customer or a class of customers to the peak demand for that service during a particular period;

4. The need for continuity in the rates;

5. The need for understandable rates;

6. The effects of any alternatives for obtaining revenue from each class of customers and designing rates on:

(a) Conservation;

(b) Efficiency;

(c) Equity;

(d) The operating margin;

(e) The stability of revenues; and

(f) The ratio of the average demand on a utility's system to the peak demand on the system during a particular period.

Sec. 32. *Any party may provide an alternate method or methods of applying the results of the cost study derived in section 31 in determining each customer class's revenue requirement responsibility considering rate impacts to each customer class, which the Commission may consider in setting rates.*

Sec. 33. NAC 704.622 is hereby amended to read as follows:

1. Except as otherwise provided in subsection 7, a utility may request the assistance of the Regulatory Operations Staff in preparing an application for a general rate change, *which may include a request to implement NRS 704.663(1) or NRS 704.663(2)*, by submitting a written request for assistance to the Assistant Secretary of the Commission.

2. Not later than 10 days after the Regulatory Operations Staff receives a utility's written request for assistance, the Regulatory Operations Staff shall notify the utility, in writing, of the information the Regulatory Operations Staff requires to make a determination of recommended rates and charges.

3. The Regulatory Operations Staff shall offer to meet with the utility not later than 30 days after the Regulatory Operations Staff receives the written request for assistance. At that meeting, the utility must:

(a) Make arrangements for the Regulatory Operations Staff to examine the books and records of the utility and to inspect the condition of the utility's facilities; and

(b) Except as otherwise provided in this paragraph *and Sections 12 and 16*, provide all the required information identified in the Regulatory Operations Staff's written notice issued pursuant to subsection 2. If the utility does not provide all the required information at the meeting, the utility may provide the required information not later than 15 days after the meeting. If the utility fails to provide the required information, the Regulatory Operations Staff shall notify the utility in writing that no further action will be taken on the request until the information is provided.

4. Following receipt of the required information identified in the Regulatory Operations Staff's written notice issued pursuant to subsection 2 to the utility, the Regulatory Operations Staff shall examine the books and records of the utility and inspect the condition of the utility's facilities.

5. Not later than 90 days after the Regulatory Operations Staff receives the required information identified in the written notice issued to the utility, the Regulatory Operations Staff shall:

(a) Complete the examination and inspection described in subsection 4; and

(b) If, based on the examination and inspection, the Regulatory Operations Staff determines that the rates and charges of the utility need to be changed, prepare, on behalf of the utility, a draft of an application for a general rate change.

6. If the utility elects to proceed with an application for a general rate change, the utility shall file the application, as prepared by the Regulatory Operations Staff or with modifications, with the Commission within 45 days after receipt of the draft of the application. If the utility files an application that contains modifications to the draft of the application as prepared by the Regulatory Operations Staff, the utility must include with its application an explanation of those modifications, the basis for the modifications, workpapers detailing any modifications to calculations and any other accounting or financial data necessary to explain and justify the modifications.

7. If the utility elects not to proceed with the application, the utility may not make another request for the assistance of the Regulatory Operations Staff for at least 1 year after the date of the previous request for assistance.

8. The Commission will issue an order on the application within 120 days. However, if necessary, the time in which the Commission issues an order on the application may be extended an additional 90 days.