

## LCB File No. T016-09

# PROPOSED TEMPORARY REGULATION OF THE PUBLIC UTILITIES COMMISSION OF NEVADA

Docket 07-11002

## VARIABLE INTEREST EXPENSE RECOVERY MECHANISM

Matter in *bold italics* is new; matter in brackets ~~[omitted material]~~ is material to be omitted.

AUTHORITY: NRS 704.324.

A REGULATION relating to public utilities; establishing provisions relating to the recovery of variable interest expense; updating and correcting references to uniform systems of accounts for gas and electric utilities; and providing other matters properly relating thereto.

**Section 1** NAC 704.105 is hereby amended to read as follows:

An account for energy cost adjustments must:

1. Contain contra entries to:
  - (a) FERC Account No. 182.3 *or 254*, for electric operations; or
  - (b) FERC Account No. 191, for gas operations.
2. Be debited or credited with the amount of the amortized energy cost differential for each month of each period of amortization.
3. Be maintained in a manner consistent with:
  - (a) FERC Account No. 182.3 *or 254*, for electric operations; or
  - (b) FERC Account No. 191, for gas operations.

**Sec. 2** NAC 704.111 is hereby amended to read as follows:

1. For each electric utility:

(a) The electric utility shall clear annually any debit *in subaccount to FERC Account No. 182.3* or credit balance in *subaccount to* FERC Account No. *254* ~~[182.3]~~ over an approved period by dividing the cumulative debit or credit balance by the total Nevada jurisdictional kilowatt-hours which have been sold during the test period. The resulting positive or negative deferred energy accounting adjustment must be applied to each Nevada jurisdictional customer's monthly use of energy expressed in kilowatt-hours.

(b) The electric utility shall not bill or credit the deferred energy accounting adjustment to the customers of the electric utility until authorized by the Commission after a proper deferred energy application is made therefor.

2. For each gas utility:

(a) The gas utility shall clear annually any debit or credit balance in FERC Account No. 191 by dividing the cumulative debit or credit balance by the total Nevada jurisdictional therms which have been sold during the test period. The resulting positive or negative deferred energy

accounting adjustment must be applied to each Nevada jurisdictional customer's monthly use of energy expressed in therms.

(b) The gas utility shall not bill or credit the deferred energy accounting adjustment to the customers of the gas utility until authorized by the Commission after a proper deferred energy application or annual rate adjustment application is made therefor.

3. The recovery of a debit balance in FERC Account No. 182.3, for electric operations, or FERC Account No. 191, for gas operations, must be limited by the most recently authorized Nevada jurisdictional rate of return for the specific operation of the electric utility or gas utility. If the Nevada jurisdictional rate of return submitted for an operating department of the electric utility or gas utility exceeds the most recently authorized rate of return for the utility, an amount equal to the amount which exceeds the utility's last authorized rate of return must be carried forward to the next test period.

**Sec. 3** NAC 704.145 is hereby amended to read as follows:

FERC Account Nos. 182.3 *or, if appropriate, 254* and 557 must be used in Nevada jurisdictional electric operations for deferred energy accounting to record monthly entries in the manner prescribed in NAC 704.101 and 704.105.

2. FERC Account Nos. 191 and 805.1 must be used in Nevada jurisdictional gas operations to record the monthly entries in the manner prescribed in NAC 704.101 and 704.105.

3. The contra entries to the deferred energy accounts referred to in subsections 1 and 2 must be made to *a subaccount to* FERC Account No. 557, for electric cost differentials, and FERC Account No. 805.1, for gas cost differentials.

4. The income tax effect applicable to the debit and credit entries to the deferred energy accounts set forth in NAC 704.023 to 704.195, inclusive, must be recorded in the following FERC accounts:

- (a) FERC Account No. 410.1 - Provision for deferred income taxes, utility operating income.
- (b) FERC Account No. 283 - Accumulated deferred income taxes, other.
- (c) FERC Account No. 411.1 - Provision for deferred income taxes, credit, utility operating income.
- (d) FERC Account No. 190 - Accumulated deferred income taxes.
- (e) FERC Account No. 409.1 - Income taxes, utility operating income.
- (f) FERC Account No. 236 - Taxes accrued.

↪ These accounts must be maintained by test period so as to separate the income tax effect between electric and gas operations. The accounts must be maintained in a manner consistent with FERC Account No. 191, for gas operations, and FERC Account No. 182.3 *and 254*, for electric operations.

**Sec. 4** NAC 704.120 is hereby amended to read as follows:

1. The Commission hereby adopts by reference from the Uniform System of Accounts of the Federal Energy Regulatory Commission those accounts enumerated in this section as FERC accounts. These accounts are contained in 18 C.F.R. Parts 101 and 201, and the volume of the Code of Federal Regulations containing these Parts may be purchased from the Superintendent of Documents, United States Government Printing Office, P.O. Box 371954, Pittsburgh,

Pennsylvania 15250-7954, or toll-free at (866) 512-1800, for the price of \$62, or these Parts may be obtained free of charge on the Internet at <http://www.gpoaccess.gov/cfr/index.html>.

2. The following accounts are hereby adopted:

- (a) Fuel for electric generation, FERC Account Nos. 501 and 547.
- (b) Purchased power, FERC Account No. 555.
- (c) Transmission of electricity by others, FERC Account No. 565.
- (d) Income tax accounts, electric and gas, FERC Account Nos. 190, 236, 283, 409.1, 410.1 and 411.1.
- (e) Gas for resale, FERC Account Nos. 728, 755, 760, 777, 800 to 809.2, inclusive, 811, 812 and 858.
- (f) Purchased gas cost adjustments, FERC Account No. 805.1.
- (g) Unrecovered purchased gas costs, FERC Account No. 191.
- (h) Interest and dividend income, FERC Account No. 419.
- (i) Other regulatory assets, electric, FERC Account No. 182.3.
- (j) Other expenses, FERC Account No. 557.
- (k) Other regulatory liabilities, electric, FERC Account No. 254.**

**Sec. 6.** NAC 704.150 is hereby amended to read as follows:

1. Except as otherwise provided in subsection 3, a carrying charge must be computed on the current average monthly debit **balance in a subaccount to** FERC Account No. 182.3, or credit balance in FERC Account No. **254** ~~182.3~~, for electric operations, or FERC Account No. 191, for gas operations, and must be respectively debited or credited to the account at the carrying charge rate of one-twelfth of the overall rate of return as authorized by the Commission for the particular department or division of the electric utility or gas utility, adjusted for the federal income tax applicable to the equity component of the overall rate of return computed at the applicable statutory rate. The rate of the carrying charge must be applied to the entire balance in **the subaccount to** FERC Account No. 182.3 **or FERC Account No. 254**, for electric operations, or FERC Account No. 191, for gas operations, net of applicable accumulated deferred income taxes, as follows:

$$\text{Carrying charge} = (\text{carrying charge rate}) \times (\text{average deferred energy balance for the month}) \times (1 - \text{statutory } \text{deferred} \text{ income tax rate})$$

2. The contra entries for the carrying charge must be made to FERC Account No. 419, for gas operations.

3. If, in any month, the Nevada jurisdictional earned rate of return for an operating department of the electric utility or gas utility exceeds the overall rate of return last authorized by the Commission for that department, and if the average monthly balance in FERC Account No. 182.3, for electric operations, or FERC Account No. 191, for gas operations, is a debit, an adjustment amount will be calculated equal to the amount which exceeds the utility's last authorized rate of return. The Nevada jurisdictional earned rate of return will be calculated quarterly using the 12-month period ending with the last month of the quarter and will apply to the carrying charge calculation in each month of that quarter. Carrying charges may accrue only on that portion of the debit balance which exceeds the adjustment amount.

**Sec. 7** NAC 704.217 is hereby amended to read as follows:

1. A utility may file an application to recover deferred variable interest expense or dividends and to update the level of variable interest expense or dividends included in the current rates within 45 days after the end of the utility's test period. An application may not be filed more than once during a calendar year.

2. The application must include:

- (a) A request for approval to adopt the procedure;
- (b) A calculation of the weighted average variable interest or dividend rate;
- (c) A calculation of the net change in the base tariff general rate resulting from changes in the weighted average variable interest or dividend rate; and
- (d) A calculation of the net change in the base tariff general rate resulting from changes in accumulation of deferred interest.

3. The net change in the base tariff general rate (1BTGR) resulting from changes in the weighted average variable interest or dividend rate must be based on the following formula:

$$1BTGR = \frac{[AVIR(new) - AVIR(prior)] \times RB}{BU}$$

4. The net change in the base tariff general rate (2BTGR) resulting from changes in accumulation of deferred interest (ADI) must be based on the following formula:

$$2BTGR = \frac{ADI(new)}{BU(new)} - \frac{ADI(prior)}{BU(prior)}$$

5. As used in this section:

(a) "ADI(new)" means the balance in the subaccount of FERC Account No. ~~186~~ 182.3 or 254 at the end of ~~during~~ the current ~~amortization~~ test period.

(b) "ADI(prior)" means the balance in the subaccount of FERC Account No. ~~186~~ 182.3 or 254 at the end of ~~during~~ the prior ~~amortization~~ test period.

(c) "AVIR(new)" means the current *test period's* ~~month's~~ weighted variable interest or dividend rate for all outstanding variable rate securities issued by the utility and included in the Nevada jurisdictional capital structure, as approved in the last general rate case or other proceeding if stipulated by the parties and accepted by the Commission.

(d) "AVIR(prior)" means the weighted average variable interest or dividend rate *previously approved*.

(e) "BU" means the billing units established in the last general rate case or other proceeding if stipulated by the parties and accepted by the Commission.

(f) "BU(new)" means the billing units established during the current *proceeding* ~~amortization period~~.

(g) "BU(prior)" means the billing units established during the prior *proceeding* ~~amortization period~~.

(h) "RB" means the rate base established in the last general rate case or other proceeding if stipulated by the parties and accepted by the Commission.

**Sec. 8** NAC 704.218 is hereby amended to read as follows:

1. A utility which plans to seek recovery of variable interest expense or dividends shall calculate revenues and expenses related to allowable variable interest expense or dividends as follows:

(a) The currently recoverable variable interest expense or dividends must be calculated each month by multiplying the last authorized rate base by one-twelfth of the last authorized weighted average variable interest or dividend rate.

(b) The difference between the currently recoverable expense and the current month's weighted average variable rate multiplied by the last authorized rate base must be transferred to a subaccount of FERC Account No. ~~[186]~~ **182.3(Other Regulatory Assets) or 254 (Other Regulatory Liabilities)** ~~[(Other Deferred Debits)]~~. The current month's weighted average variable rate is the current rate for all outstanding variable rate securities issued by the utility and included in the Nevada jurisdictional capital structure, as approved in the last general rate case or other proceeding if stipulated by the parties and accepted by the Commission.

(c) Whenever a new weighted average variable interest or dividend rate is authorized, revenues must be increased or decreased annually to match changes in allowable interest expense or dividends by adjusting the base tariff general rate based on the following formula:

$$IBTGR(\text{new}) = IBTGR(\text{prior}) \pm 1BTGR$$

2. As used in this section:

(a) "1BTGR" means the net change in the base tariff general rate resulting from changes in the weighted average variable interest or dividend rate, calculated pursuant to subsection 3 of NAC 704.217.

(b) "**1BTGR(new)**" means the base tariff general rate established in the **current proceeding** ~~[last general rate case or other proceeding if stipulated by the parties and accepted by the Commission]~~.

(c) "**1BTGR(prior)**" means the base tariff general rate established in the **last** ~~[prior]~~ general rate case or other proceeding if stipulated by the parties and accepted by the Commission.

**Sec. 9** NAC 704.219 is hereby amended to read as follows:

1. A utility which plans to seek recovery of variable interest expense or dividends shall calculate revenues and expenses related to the accumulation of deferred variable interest or dividends as follows:

(a) **Monthly** ~~[A]~~ amortization revenues must be credited or debited to FERC Account No. ~~[186]~~ **182.3or 254** based on the following formula:

$$2BTGR \times BU(\text{new})$$

(b) **A corresponding debit or credit** ~~[Monthly expense]~~ must be transferred from the subaccount of FERC Account No. ~~[186]~~ **182.3 or 254** to a subaccount of interest expense. ~~[Monthly expense is the net change in the base tariff general rate, calculated pursuant to subsection 3 of NAC 704.217, and multiplied by the billing unit sales for the month.]~~

(c) Whenever a new accumulation of deferred interest is authorized, revenues must be increased or decreased annually to match changes in accumulation of deferred variable interest by adjusting the base tariff general rate based on the following formula:

$$2BTGR(\text{new}) = 2BTGR(\text{prior}) \pm 2BTGR$$

2. As used in this section:

(a) “2BTGR” means the net change in the base tariff general rate resulting from changes in the accumulation of deferred interest, calculated pursuant to subsection 4 of NAC 704.217.

(b) “2BTGR(new)” means the base tariff general rate established in the *current proceeding* ~~[last general rate case or other proceeding if stipulated by the parties and accepted by the Commission].~~

(c) “2BTGR(prior)” means the base tariff general rate established in the *last* ~~[prior]~~ general rate case or other proceeding if stipulated by the parties and accepted by the Commission.

(d) “BU(new)” means the billing units established during the current *proceeding* ~~[amortization period].~~

**Sec. 10** NAC 704.220 is hereby amended to read as follows:

A utility which plans to seek recovery of variable interest expense or dividends shall compute a carrying charge on the *average monthly* debit or credit balance in the subaccount of FERC Account No. ~~[186] 182.3or 254~~ at the end of each month as follows:

1. The carrying charge must be debited or credited to the subaccount of FERC Account No. ~~[186] 182.3or 254~~ at the rate of one-twelfth of the overall rate of the return which was last authorized by the Commission for the particular department or division of the utility~~[-]~~, *adjusted for federal income tax applicable to the equity component of the overall rate of return computed at the applicable statutory rate.* The rate of carrying charge must be applied to the entire balance in the subaccount~~,~~ *net of applicable accumulated deferred income taxes, as follows:*

$$\text{Carrying Charge} = (\text{Carrying charge rate}) \times (\text{average deferred variable interest expense balance for the month}) \times (1 - \text{statutory income tax rate}).$$

2. The contra entries for the carrying charge must be made to an appropriate subaccount of FERC Account No. 419 (Interest and Dividend Income) or FERC Account No. 431 (Other Interest Expense).

3. All carrying charges must be recorded in a separate subaccount entitled Carrying Charge for Recovery of Variable Interest Expense or Dividends.

**Sec. 11** NAC 704.222 is hereby amended to read as follows:

The changes in rates authorized by NAC 704.218 and 704.219 are effective at the same time as a change in the rates resulting from a general rate case~~[-, a purchased gas adjustment,]~~ or a deferred energy accounting adjustment, unless the Commission authorizes a different effective date.

**Sec. 12** NAC 704.640 is hereby amended to read as follows:

The Commission hereby adopts by reference the regulations contained in 18 C.F.R. Parts 201~~[-]~~ *and* 204~~[-, and 205]~~ as those regulations exist on ~~June 1, 1971~~ *April 1, 2009*. (ongoing changes.) The volume containing the uniform system of accounts for natural gas companies~~[-, classes A, B, C and D,]~~ is available from the Superintendent of Documents, United States Government Printing Office, ~~[Washington, D.C. 20402, at the price of \$8]~~ *P.O. Box 979050, St Louis,*

*Missouri 63197-9000, toll-free at (866) 512-1800, or online at <http://bookstore.gpo.gov>, for the price of \$62. It can also be accessed free of charge online at <http://ecfr.gpoaccess.gov>.*

**Sec. 13** NAC 704.650 is hereby amended to read as follows:

The Commission hereby adopts by reference the regulations contained in 18 C.F.R. Parts 41, ~~[Accounts and Records, and 18 C.F.R.] 101, [Part] and 290, [Collection of Cost of Services Information,]~~ as those regulations exist on ~~[June 1, 1971]~~ *April 1, 2009*. (ongoing changes.) ~~The [V] volume containing 18 C.F.R. 1[-149 and volume 18 C.F.R. 150]-399 [are] is~~ available from the Superintendent of Documents, U.S. Government Printing Office, ~~[Washington, D.C. 20402, at the price of \$16 and \$8 respectively]~~ *P.O. Box 979050, St Louis, Missouri 63197-9000, toll-free at (866) 512-1800, or online at <http://bookstore.gpo.gov> for the price of \$62. It can also be accessed free of charge online at <http://ecfr.gpoaccess.gov>.*

**Sec. 14** NAC 704.8937 is hereby amended to read as follows:

1. A utility provider shall:

(a) Account for portfolio energy credits by using General Instruction 21 as set forth in the Uniform System of Accounts of the Federal Energy Regulatory Commission in 18 C.F.R. Part 101, which is hereby adopted by reference. (Ongoing update language.) The volume of the Code of Federal Regulations which contains Part 101 may be purchased from the Superintendent of Documents, United States Government Printing Office, P.O. Box 371954, Pittsburgh, Pennsylvania 15250-7954, or toll-free at (866) 512-1800, for the price of \$62.

(b) Substitute FERC Account No. 555, which is adopted by reference pursuant to NAC 704.120, for FERC Account Nos. 411.8, 411.9 and 509.

(c) Maintain subaccounts for portfolio energy credits that are separate from all other items in FERC Account No. 555.

(d) Apply for the inclusion of any losses or gains from the purchase or sale of portfolio energy credits in each deferred energy application filed pursuant to NAC 704.023 to 704.195, inclusive.

2. As used in this section, "FERC account" means an account contained in the Uniform System of Accounts established by the Federal Energy Regulatory Commission.