

**Regulatory Assistance Project Electric Resource Long-range Planning Survey**  
Compiled by CM  LB

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Name of Agency: Nevada Public Utilities Commission

Contact Person, title: John Candelaria

Phone/email: 702-486-7214

Website:

**Policies**

1. Is any form of long-range electrical resource and/or investment planning required?  
 Yes  No

2. If yes, what planning processes are going on?  
Resource Planning

3. Please describe resource planning. (Who files what, when, how often? Who analyzes filings? Formal docket? Who responds? Who are regular parties? How is it used?)

The resource planning statutes and regulations are listed at the following internet sites <http://www.leg.state.nv.us/nrs/NRS-704.html> and <http://www.leg.state.nv.us/NAC/NAC-704.html> respectively. The information provided in this survey is intended to be informal and should not be used in lieu of the statutes and regulation.

Nevada has two major electric utilities, Nevada Power and Sierra Pacific. Both are owned by Sierra Pacific Resources. The utilities are required to file a resource plan every 3 years by statute. Regular interveners include the Commission's Staff and the Bureau of Consumer Protection, a consumer advocacy group. Other interveners may include large industrial customers (such as large hotel/casinos and gold mines), the Southern Nevada Water Authority, and independent power producers. Environmental groups intervene infrequently.

The Commission approves the three-year action plan of the utility's twenty-year resource plan. If a resource or action item is approved in the action plan, then a utility's decision to pursue the resource or action item is deemed to be a prudent act, although it is still subject to regulatory review in a rate case. For example, if the Commission granted approval for a utility to construct a new generating resource, then pursuing the completion of this project would be deemed prudent. However, the costs associated with the project are still subject to prudence review in the rate case.

The resource planning regulations in Nevada are designed to protect the ratepayer and the utility. Therefore, it is in everyone's best interest for the utility to request from the Commission authority to deviate from an action plan that has already been approved.

In between resource plan filings, if there are changes that meet a specified threshold, utilities can submit amendments requesting Commission approval for new items. Currently both of the Nevada electric utilities are on their ninth amendment. Sierra Pacific filed a resource plan in 2004 and Nevada Power filed its resource plan in 2001.

Per regulations, utilities are also required to file an annual energy supply plan, similar to an amendment, requesting Commission approval for fuel procurement strategies, risk mitigation, and purchased power procurement over the upcoming year. The energy supply plans address a much shorter time period than the resource plans – just one year. The regulations are structured so that utilities ask for commission approval of their plans and strategies, but they are expected to change strategies if circumstances warrant.

4. *Is it statewide or utility-specific planning? What types of entities are required to participate?*

It's utility-specific. The commission doesn't regulate all utilities. Resource planning applies to the two major public utilities only, not coops. (Coops have their own governing regulatory body. They may report to the PUC, but the PUC doesn't regulate them.)

5. *Is there any relationship between this process and other decisions, e.g. construction permits, likelihood of inclusion or pre-approval of rate treatment for the anticipated resource investments?*

This Commission issues "Permits to Construct" for projects in Nevada that meet the requirements for a "utility facility" as defined per statute and regulation, whether it's being built by an electric utility or not. The "Permit to Construct" regulations and statutes require the Commission to make certain findings before the construction permit can be issued. It is easier for the utilities in Nevada to have their "permit to construct" applications approved if these findings are determined in the resource planning process. For example, if an electric utility in Nevada receives approval for a new generator, the findings made by the Commission (such as is the resource needed) regarding this resource can be used to facilitate the processing of a "permit to construct" application for this resource.

As far as ratemaking, the resource planning process removes a degree of uncertainty for adding the project to rate base. For example, when a utility comes in with a request for approval of a generating unit, it must identify why it needs the facility, demonstrate that it is a least cost resource, and specify the expected cost of the

project. Then, the Commission may approve the generating unit. When the utility attempts to add the generating resource to its rate base, the prudence issue regarding the project and its costs, up to the approved amount, should not be an issue. If there are extenuating circumstances, that's another matter, but generally, if the resource itself is deemed prudent and the costs are prudently incurred and come in at budget, the utility should have no problem adding the resource to rate base in a rate case application.

In addition, the resource planning regulations have a provision that allows an incentive to be requested by the utility if a facility is deemed "critical" by the Commission. There are specific criteria listed in the regulations for classifying a facility as critical. For example, if the Commission felt it was important to promote fuel diversity, after designating a facility as "critical", the PUC could grant a utility request for some type of incentive to pursue a generating resource that diversified that utility's resource mix. For example, if Sierra Pacific came in asking to build a 500 MW coal facility, and this resource met the acting Commission's criteria for critical facility status, Sierra Pacific could request that an incentive be provided to it for pursuing this resource. The types of incentives that are available include favorable rate treatment (Construction Work in Progress (CWIP) in rate base), or a higher ROE on the proposed resource. Critical status is defined by the Commission and could include DSM, renewables, diversification, rate stabilization, and other options. The incentive mechanism allows the Commission to incent utilities to pursue certain types of resources. It's designed to move the utility in a direction consistent with state goals, and commission policy.

6. *This form of planning has been required since what date?*

Resource planning started in the early 1980s. The newest revision of the regulations was adopted in 2004.

7. *How is this process enforced, if at all? If a utility does something inconsistent with the Plan, does it have to explain itself satisfactorily to avoid a charge of imprudence? Is it routine for utilities to diverge from a Plan with an explanation? Are there any consequences for non-compliance?*

We have statutes that require resource planning to be done, and the regulations clarify how it will be done. If the utilities don't comply, they are in violation of law or regulation, with penalties for both. Utilities are required to file resource plans every three years and supply plans annually. So far, utilities have never missed a filing intentionally. Amendments to resource plans are also filed as necessary. For example, Nevada Power asked for Commission approval to self-build a combined cycle generating resource, then it submitted an amendment to the Commission requesting approval to buy a Duke plant at a more attractive price. Enforcement hasn't been a big issue. In fact, utilities and their shareholders are protected by the resource planning process and if used correctly it is the best way for them to minimize regulatory risk. Absent the resource planning process utilities would have to worry about whether their actions were prudent or not and then take their chances in a rate

case. Resource planning may seem like a hassle for utilities, but it's the best way to guarantee cost recovery.

8. *Is anything similar required for non-electric natural gas-related planning?*  
 Yes       No

*If yes, what is that process called?*

It's not required by statute at this time. There are natural gas regulations included in the Nevada Administrative code (the regulations are under NAC 704-957), but in a past legislative session, the rules were discontinued. The Commission Staff is currently reviewing gas-related resource planning, so that may change in the future.

### **Required Elements**

9. *Back to the electric resource process. Which of the following resources must be explicitly evaluated/included:*

- Generation
- Transmission
- Distribution
- Energy efficiency
- Load Management
- Other demand side measures
- Specific generation (e.g. renewable, distributed)
- Others

Plans must address all of a utility's resource needs, including transmission, generation, and purchased power. Any contract longer than 3 years and greater than 5 MWs must be approved by the Commission. Short-term contracts for less than 3 years don't require Commission approval. For transmission, lines that are 200 kV or greater, and outside of an incorporated city, must be approved (lines within city limits fall under city jurisdiction). Distributed generation is addressed, by requiring utilities to make an estimate of available distributed resources when deciding what generation needs to be secured.

Distribution issues, by regulation, are not addressed in resource planning. Distribution issues are addressed in another process, a deferred energy process (AKA Fuel Adjustment Clause), that deals with fuel, purchased power, distribution, operating efficiency, and other issues. The deferred energy process is linked to but separate from resource planning.

Load management can be addressed in a couple of ways. Utilities are not required to issue RFPs for load management or other DSM programs. They may initiate or continue to promote any DSM program authorized by the Commission. Nevada's rate structure

does not favor development of DSM resources, as rates are set to recover the cost of doing business and provide a rate of return to investors (i.e., reduced kWh sales due to DSM programs reduces cost recovery and return). To offset these reductions, utilities are allowed an incentive return of 5% on the costs incurred for DSM programs.

*What tests must be included/utilized?*

The present worth of future requirements for revenue and the present worth of societal cost are two ways that various expansion plans are evaluated against each other. Utilities must submit the analysis they use to select DSM programs.

*10. Describe the analysis required by the regulatory body (what is compared to what to make decisions? How are resources compared to each other? Cost with one set of resources vs another, economic, environmental?)*

There are a number of factors that go into a decision by the Commission. The primary factor is economic analysis. Other factors depend on the utility's situation and can include reducing reliance on the purchased power market, minimizing costs, stabilizing rates, addressing the uncertainty with the market, or other factors. The economic analysis is primary, and other factors come into play based on circumstances.

Utilities are required to submit present worth of revenue requirements for each expansion plan. The present worth of revenue requirements is the sum of the capital costs and production costs associated with executing an expansion plan. In its last filing, Sierra Pacific had 12 different expansion plans for the Commission to consider, including its preferred plan.

*11. Does the process investigate how the employment of one strategy vs. another may increase the consumers' exposure to risk (e.g. natural gas prices)? If so, how?*

The Commission may favor utility actions that reduce risk. This is referred to as "uncertainty" in the resource planning process and "risk" in the supply plan process. Utilities are required to develop a risk management plan in their energy supply plans, geared toward reducing volatility and costs. This is typically addressed using some type of short term hedging strategy for the coming year. The resource planning process, however, looks to identify and reduce future uncertainty. For example, coal availability in Nevada could be affected by the California market, so in their resource plans, Nevada utilities should consider the impact of statements from California on coal development in the west. Mercury and carbon dioxide are also considered, as well as what's going on the market, such as whether there will be excess capacity in the purchased power market, if resources don't come online as planned.

*12. Is a comparison of supply or T&D infrastructure and demand side options/resources required? Yes No*

*13. The plan's objectives, from the regulatory perspective:*

Resource and supply plans are typically done so that utilities develop a least cost plan for securing resources to serve customers. Another objective is to allow utilities a method to reduce regulatory risk.

14. *The plan's objectives, from the utility perspective:*

Resource planning gives utilities assurance of cost recovery and an opportunity to reduce its regulatory risk.

15. *Are alternative scenarios analyzed as part of the plan?* Yes No  
(Prompts if needed: fuel costs, economy, technology shifts, weather)

Typically utilities will present all their recommended expansion plans, with different scenarios for each plan. High, low, and base load growth are considered, so the Commission gets a sense of how plans stack up against each other under different conditions. Load growth, population, and temperature are all considered.

*Are externalities considered? If so, which ones and how are they considered?*

The primary criteria is present worth of revenue requirements (PWRR), and the other criteria are the societal cost and economic benefits of the plant. Present worth of societal cost is the method required by the regulations for comparing plans. Externality values used when measuring societal costs were approved by the Commission in the early 90s. Currently, utilities are required to provide not only PWRR (an economic analysis), but also the same analysis with externality numbers included. Economic externalities can be considered in the resource planning process, but have generally been less useful because they're so hard to estimate accurately.

16. *What is the planning horizon?* 20 years

*Length of Energy and Demand forecasts:* 20 years

*Length of Short-term Action Plan:* 3 years

17. *How often do utilities have to file plans? Update plans? What actually happens?*

Resource plans are filed every three years, and energy supply plans are filed every year. The utility is also required to file a status report in between filings. Amendments to action plans are filed as necessary.

18. *What monitoring or other processes are used to determine consistency of investments with plans? Are there consequences for non-compliance?*

Besides regular status reports, there are no other required periodic checks. The status reports are required to include a comparison of actual costs to approved cost for action items approved by the commission.

19. *Are environmental issues considered in the planning process?* Yes No  
*If yes, please describe.*

Environmental issues are considered in the externalities. Pervasive in the regulations is the requirement for a renewable portfolio standard. Environmental effects are also one of the factors considered when plans are analyzed.

20. *Is reduction or elimination of carbon emissions an issue? If so, how is it dealt with?*  
Carbon emissions are not specifically addressed by regulations themselves, but might be considered under risk (e.g., the risk of future regulation). Carbon may be addressed in the future, because the ratepayers are owed that risk analysis when the utility is considering different types of resources. It should be done not only for CO<sub>2</sub> but also for mercury and other emissions.

### **Agency Process**

21. *Is there a formal acceptance and/or acknowledgement process used for the resource filing?*  Yes  No

Utilities are required to file, and the Commission is required to approve, the 3 year action plan. Once the presiding officer has addressed the case, his or her recommendation is taken to the Commission, which votes as a body to either approve or reject the plan.

22. *Does the agency hold public hearings on draft/final utility plans?* Yes No

*If not, describe what does happen.*

Public hearings are held on all contested resource plan applications and are the venue for addressing issues. Typically a utility will submit an application, after which intervenors have 30 days to intervene. The Commission will set up conferences to determine the issues, and public hearings are usually held, although not always. For example, in Sierra Pacific's last plan, there were two large customers considering leaving utility service who were proposing to build resources to self-serve their load. In that filing, the Commission and intervenors decided not to hold public hearings until the fate of those customers was known.

*If yes, what is the duration of the public hearing process?*  
See above

23. *Other ways the public participates and comments on plans are:*

*(Prompts if needed: email or mailing lists, interactive web sites)*

Participation is typically done in hearings. There are ways that the public can make a general statement -- anyone can come to rate cases and agenda meetings and make comments -- but typically participation happens in dockets.

24. *What action can the Commission take on the plan(s)?*

Review it

Accept it

Approve it

Reject it

Acknowledge it

Require utility to modify and resubmit it

Other

The Commission approves the action plan and may reject whatever it is appropriate to reject.

25. *Have resource acquisition decisions changed as a result of the planning process?*

Yes No Not Sure

Before this process began, utilities weren't doing DSM, which they now do. The process also includes an RPS. In terms of conventional resources, it's uncertain whether the planning process has affected resource procurement decisions. For the last 25 years, utilities have been required to evaluate all the different resource alternatives. Actual decisions may have changed, but that's not clear.

26. *Are competitive processes used to acquire new resources?* Yes No

Competitive processes are required for renewables. For conventional supply, competitive processes are not specifically required, but utilities must show that they have analyzed all available options. If the utility issues an RFP and can show the Commission that they have considered the resulting options, they will have satisfied the Commission's requirement. So competitive bidding for conventional supply is not required, but the process encourages it.

27. *If yes, do you require regulatory review and approval of the competitive solicitations used?*

Re: RFP for Renewable resources: After bids for renewable resources have been received, the utilities must bring a list of all bids received, rank them in order by cost per REC, and classify them by type for comparison. This review is typically completed by the Staff of the Commission. The Commission may or may not see the RFP results.

28. *Do utilities file an energy efficiency or DSM plan?* Yes No

*If so, is it separate or integrated with other plans?*

Integrated

29. *Is competitive bidding used to acquire EE resources?*  Yes  No

30. *Does the regulatory agency have open dockets, or is it considering opening a docket investigating any long-range electrical investments?*  Yes  No

Currently there are no open dockets on large conventional resources. There are 2 two amendments open on resource planning issues: a DSM amendment, and an amendment on REC trading.

*Citation and description:*

31. *Are utility plans available on-line?*  Yes  No

Utilities may have them available on their own websites, but they are not available on the Commission site.

*Is on-line publication voluntary or mandatory?*

Voluntary

32. *Citation and description of State policies (legislation, rules/regs, PUC orders) governing this planning process:*

Statutes – NRS 704.741

<http://www.leg.state.nv.us/nrs/nrs%2D704.html>

Regulations – NAC 704.9

<http://www.leg.state.nv.us/NAC/NAC-704.html>

33. *Do you anticipate any changes to this process in the near future?*  Yes  No

*If yes, please describe.*

34. *Have there been any recent settlements or orders in rate cases or other dockets that may affect resource procurement or investment incentives?*  Yes  No

35. *Does your state do performance-based regulation?*  Yes  No

*If so, please describe briefly.*

The utilities have made a proposal to do PBR, but the Commission isn't currently exploring this option.

37. *If your state uses PBR, is successful compliance with an approved resource plan one of the areas subject to incentives or penalties?*  Yes  No

*Are there any regulatory incentives specifically for energy efficiency, other DSM, or renewables? (Examples: lost revenue recovery, shared savings, bonus rate of return)*  
 Yes  No

*If so, please describe briefly.*

The Commission can use “critical facility” designation (See Question 5) to specify an incentive mechanism for a utility. The regulations also include a 5% ROE for any DSM program.

38. *Do any tariffs include a fuel/purchased power clause?*  Yes  No  
*If so, how does it work?*

Utilities are required by regulation to submit deferred energy filings. These are applications seeking approval for recovery of fuel and purchased power costs and asking to clear a fuel balance account. Each utility does this annually. Accounts are balanced when rates are set for the following year.

39. *Does your state have any renewable mandates (e.g. from a legislated standard or goal, or a regulatory settlement or Order)?*  Yes  No

NRC 704-736 is the statute establishing the renewable mandate. (In the regulations, the renewable program begins at 704.8831.) Basically, each utility is required to meet a certain percentage of its energy needs with renewable resources. The requirement is progressive, starting at 5% and increasing periodically through 2010 by 2% annually. The requirement is met by purchasing RECs. Typically the REC is equivalent to a kWh. Utilities can either generate the energy directly from their own resources, or they can buy RECs from another utility. RECs generated in Nevada by developers under contract with a Nevada utility must go to a utility within Nevada. RECs and energy aren't bundled; the REC can be sold separately. There are a lot of geothermal and wind resources in the northern part of the state, but the south doesn't have transmission access to the north, so REC trading is required to allow both utilities an opportunity to meet their portfolio requirements.

*If so, please describe, including how the mandate relates to power vs. RECs.*

See above

*Can EE or DSM savings be credited toward a utility's renewable mandate?*

In the last legislative session, a statute was modified to allow utilities to get some credit from efficiency and apply it to their RPS. It can be found in same links.

## State Energy Plan

40. *Is there a State Energy Plan?*

Yes

No

41. *Is it connected to the planning described above?*

Yes

No

42. *If yes, who is responsible for the Plan?*

The Nevada State Office of Energy develops the plan. It's not directly related to resource planning. They have to worry about the whole state in general, including fuel for businesses, development of geothermal resources, etc. They usually solicit info from Commission on electric and gas issues, and the Commission works with them in developing the plan.

43. *What is included in the Plan, apropos of long-range electrical planning?*

N/A