

FUEL & PURCHASED POWER COSTS

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Electric and gas utilities regulated by the Public Utilities Commission of Nevada ("PUCN") file applications to recover their fuel and purchased power costs each year. The questions and answers below provide a basic background on these types of applications.

FUEL & PURCHASED POWER COSTS

The fuel cost for a natural gas utility is the cost of the natural gas it purchases for delivery to customers for their use, and the cost of the interstate pipeline service used to obtain the natural gas. Natural gas utilities' fuel costs might reasonably be expected to account for 33 percent of a customer's bill in Southern Nevada and 55 percent in Northern Nevada, depending on market conditions.

For electric utilities, fuel costs include the cost of coal and natural gas to generate electricity at power plants. Electric utilities also incur purchased power costs when they buy electricity in the wholesale market, including renewable energy. Electric utilities' fuel and purchased power costs might reasonably be expected to account for 33 percent of a customer's bill, depending on market conditions.

ARE UTILITIES PERMITTED TO PROFIT ON FUEL AND PURCHASED POWER COSTS?

No. Fuel and purchased power costs are passed on to ratepayers on a dollar-for-dollar basis, without providing any profit to utilities. The amount of profit a utility is permitted to have the opportunity make is a separate determination, made in a general rate case. (See the PUCN's "General Rate Case Process" fact sheet.)

HOW ARE FUEL & PURCHASED POWER COSTS RECOVERED IN RATES?

Fuel and purchased power rates charged to retail customers consist of two components:

- 1) Base Tariff Energy Charge (BTER)
- 2) Deferred Energy Accounting Adjustment (DEAA)

The BTER is set to collect from ratepayers the estimated cost of fuel and purchased power. It is updated each quarter to reflect the average recorded costs of fuel and purchased power for the previous twelve months.

The DEAA rate eliminates the difference between the BTER revenues and the utility's actual costs of fuel and purchased power, so that in the end ratepayers only reimburse the utility for its actual costs. If the BTER was set too high, customers receive a credit in the DEAA. If the BTER was too low, the utility collects the difference.

Both rates are updated each quarter according to Nevada law. These quarterly rate adjustments are not

subject to the requirements for notice and a hearing as other types of rate adjustments, because these costs are subject to review and adjustment in an annual filing in which they are reviewed for prudence and subject to possible disallowance.

DOES THE PUCN REVIEW THESE COSTS, AND WHAT DOES THE PROCESS INCLUDE?

On an annual basis, electric and gas utilities apply to the PUCN for a determination that their fuel and purchased power costs for the previous calendar year were prudent. In general, electric utilities make a filing called a deferred energy accounting adjustment application, and gas utilities make a filing called an annual rate adjustment application. The PUCN examines the fuel and purchased power costs presented in these applications to determine whether the utilities prudently incurred them. (These applications may also include requests to set other rates such as renewable energy program rates for electric utilities and shrinkage rates for gas utilities.)

The receipt of a utility's application initiates a process that must, by Nevada law, be completed within 210 days.

The PUCN is required to conduct a consumer session when an application to recover fuel and purchased power costs requests an increase of a certain amount specified in statute. Consumer sessions offer a forum for the public to voice opinions on these applications directly to PUCN commissioners.

DO UTILITIES ALWAYS RECOVER ALL OF THEIR FUEL AND PURCHASED POWER COSTS FROM CUSTOMERS?

Not always. The law requires the PUCN to disallow recovery of any fuel and purchased power costs that it determines were imprudent. Costs may be disallowed, for example, if the PUCN finds that a utility did not manage its procurement of fuel and purchased power prudently. The DEAA rate is adjusted to reflect any disallowance by the PUCN.

MORE INFORMATION

More information about PUCN consumer sessions, proceedings, and representation of the collective interests of consumers by the Bureau of Consumer Protection can be found on the "Consumers" section of the PUCN's website. Also, visit www.leg.state.nv.us to review Nevada Revised Statute Chapter 704 and Nevada Administrative Code Chapter 704 for in depth information about purchased power & fuel requirements for utilities regulated by the PUCN.



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