BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA


Docket No. 07-06049

At a general session of the Public Utilities Commission of Nevada, held at its offices on December 19, 2007.

PRESENT: Chairman Jo Ann P. Kelly
Commissioner Rebecca D. Wagner
Commissioner Sam A. Thompson
Commission Secretary Crystal Jackson

ORDER

The Public Utilities Commission of Nevada ("Commission") makes the following findings and conclusions:

I. PROCEDURAL HISTORY


2. SPPC requests Commission approval for the following: a finding that SPPC’s forecasted requirements are based on substantially accurate data and an adequate method of forecasting; a finding that SPPC’s electric load and sales forecasts are the best and most accurate
information on which to base planning decisions over the next three years; a finding that SPPC’s fuel and energy market forecasts present the most accurate information on which to base planning decisions over the next three years; approval of a revised budget of $16.5 million for the King’s Beach Diesel replacement project; approval of the expenditure of $100,000 during the Action Plan Period to continue to operate the meteorological station at Valmy Station; approval of status reports on previously approved projects including the Tracy 541 MW combined cycle project and the Ely Energy Center and EN-TI projects; approval of the expenditure of $27 million to construct the Bordertown Transmission Capacity Project, $4 million of which will be expended during the Action Plan Period; approval of the expenditure of $91 million to construct the Ft. Sage Transmission Capacity Project, $32 million of which will be expended during the Action Plan Period; approval of the expenditure of $25 million to construct the Emma Transmission Capacity Project, $20 million of which will be expended during the Action Plan Period; approval of the expenditure of $22 million to construct the Fallon Transmission Capacity Project, $3 million of which will be expended during the Action Plan Period; approval of the expenditure of $4 million to construct the 345 kV Voltage Support Project, $3 million of which will be expended during the Action Plan Period; approval of the expenditure of $4 million to conduct Routing Studies on Substation Transmission Line Routes; approval of the expenditure of $105,000 to maintain membership in WestConnect; approval of three Related Power Purchase Agreements ("RPPAs") with Nevada Power Company ("NPC"); approval of four amendments to previously approved Related Power Purchase Agreements due to the Ormat Settlement Agreements; approval of the Ormat Settlement, consisting of five amendments to renewable energy power purchase agreements with subsidiaries of Ormat North America, Inc.; approval of Amendment No. 1 to the Long-Term Agreement for the Purchase and Sale of Electricity between
SPPC and Steamboat Hills, LLC; approval of the expenditure of $11,190,500 for the SolarGenerations Programs; approval of demand-side management projects; approval of the ESP, including a finding that Sierra has met all routine compliance items established in previous ESP docket and an affirmative finding that SPPC has complied with a prior directive to review the availability of planned gas storage projects and to provide an analysis of possible renewal of transportation capacity on the TransCanada system; approval of SPPC's financial plan; a finding that SPPC's 2007 Resource Plan demonstrates the economic, environmental and other benefits to Nevada and SPPC's customers associated with improvements in energy efficiency, pooling of power, purchases of power from neighboring states, renewable energy generation, co-generation, hydro-generation and other generating resources; approval of SPPC's request for protection of confidential information filed under seal and one confidential request found in Volume III, Section 5.C of the ESP; and the approval of such deviations from the Commission's regulations as may be in the public interest.

3. This Application is filed pursuant to the Nevada Revised Statutes ("NRS"), and the Nevada Administrative Code ("NAC"), Chapters 703 and 704, including but not limited to NAC 704.9005 through NAC 704.9525. Pursuant to NAC 703.5274, SPPC has requested that certain materials in the Application receive confidential treatment.

4. The Commission issued a public notice of the Application in accordance with state law and the Commission's Rules of Practice and Procedure.

5. The Regulatory Operations Staff of the Commission ("Staff") and the Nevada Attorney General Bureau of Consumer Protection ("BCP") participate as a matter of right in this matter.

6. On July 20, 2007, Staff filed a motion requesting an expedited hearing to consider clarification of a previous Docket. SPPC responded to said motion on July 27, 2007. Staff
replied to said response on August 3, 2007. The Presiding Officer issued an Order resolving the outstanding motion on August 27, 2007.

7. A Pre-Hearing Conference was held in the present Docket on August 30, 2007, and a Procedural Order issued on September 5, 2007.

8. On August 1, 2007, Newmont USA, Ltd., d/b/a Newmont Mining Corporation ("Newmont") filed a Petition for Leave to Intervene in this matter. Newmont’s Petition was granted by the Presiding Officer on August 7, 2007.

9. On August 8, 2007, Ormat Nevada, Inc. ("Ormat") filed a Petition for Leave to Intervene in this matter. Ormat was granted limited intervention by the Presiding Officer on August 30, 2007. Ormat’s intervention is limited to the portions of the proceeding concerning SPPC’s request for approval of a Long-Term Firm Purchase Power Agreement with ORNI 20 LLC and SPPC’s request for approval of the Ormat Settlement related to various purchase power agreements with other Ormat entities.

10. On August 8, 2007, T G Power, LLC ("T G Power") filed a Petition for Leave to Intervene in this matter. T G Power was granted limited intervention by the Presiding Officer on August 30, 2007. T G Power’s intervention is limited to the portions of the proceeding concerning SPPC’s request for approval of a purchase power agreement with T G Power.

11. On August 8, 2007, the City of Fallon ("Fallon") filed a Petition for Leave to Intervene in this matter. Fallon was granted limited intervention by the Presiding Officer on August 30, 2007. Fallon’s intervention is limited to the portions of the proceeding concerning SPPC’s request for approval of the various transmission projects identified in the Application.

12. On August 8, 2007, Nevadans for Clean Affordable Reliable Energy ("NCARE") filed a Petition for Leave to Intervene in this matter. NCARE was granted limited intervention by the Presiding Officer on August 30, 2007. NCARE is permitted to intervene in the present action, with the restriction that NCARE is not permitted to intervene in the ESP portion of the proceeding.
13. On August 30, 2007, the Washoe County Senior Law Project ("WCSLP") filed a Petition for Leave to Intervene in this matter. WCSLP was granted limited intervention by the Presiding Officer on September 10, 2007. WCSLP's intervention is limited to the portions of the proceeding concerning SPPC's requests to: 1) increase the eligibility for the low income DSM programs; 2) reduce the percentage of low income electric DSM funding to all electric DSM funding; and 3) alter the way in which low income seniors receive conservation services for both electric and gas DSM programs.

14. The Hearing on the ESP portion of the Application was held on October 8-9, 2007. Present at the hearing on the ESP portion of the Application was SPPC, Staff, BCP, Newmont, Ormat, TG Power and Fallon.

15. On October 12, 2007, SPPC filed notice that it was withdrawing the request for Commission approval of the Ormat Settlement Agreement.

16. On October 22, 2007, SPPC filed a Motion to Strike portions of the Testimony filed for the November 1, 2007, hearing. Said Motion was denied by the Presiding Officer in open hearing on November 1, 2007.

17. The Hearing on the remainder of the Application was held on November 1-2, 2007. Present at the hearing was SPPC, Staff, BCP, Newmont, Ormat, TG Power, Fallon, NCARE and WCSLP.

18. On November 6, 2007, the Order regarding the Energy Supply Plan portion of the Application was issued.

II. POSITION OF PARTIES

A. SPPC Position


20. Mr. William Rogers, Corporate Sr. Vice President, Chief Financial Officer, and Treasurer, sponsors Volume VI, Section 3 (Financial Plan). Exhibit 4.
21. Mr. Charles A. Pottey, Manager of Long Term Resource Planning, sponsors Volume VI, Supply Side Plan, of SPPC's 2007 Resource Plan. Exhibit 1; Exhibit 11. He also provides, in accordance with a directive from the Presiding Officer at the August 30, 2007 prehearing conference, pre-filed supplemental testimony addressing SPPC's consideration of using a unit for a back-up resource for emergency purposes versus retiring the unit. Exhibit 62.

22. Mr. Rick Thompson, Manager of Production Cost Modeling, sponsors Volume IV, the Electric and Gas department load forecasts. Exhibit 1; Exhibit 58.

23. Mr. John V. Lescenski, Manager of Generation Asset Performance Management, sponsors portions of Volume VI, Section 1 (Supply Side Plan) and Technical Appendix II relating to: the King's Beach Replacement Units; the Pinon Gasifier Decommissioning Project; the Portola Plant Decommissioning Project; the Valmy Expansion and Combustion Upgrades; the Valmy ReACT Project; the Condition Assessment Studies; the status of the existing generating facilities and associated capital projects; and the new generation supply options considered, including descriptions, estimates, performance information and schedules. Exhibit 1; Exhibit 56.

24. Mr. Lescenski also provides pre-filed supplemental direct testimony addressing the following:

   a) Why SPPC has not pursued continued development of water resources for the “Valmy Option” and provides a status update on the Valmy land purchase and the water options that are being considered for the Valmy Option.

   b) A list of SPPC’s options for developing the Valmy Option either with or without Idaho Power Company. Exhibit 57 at 2.

25. Mr. William J. Heck, Manager, Renewables, sponsors the portions of Volume VI of SPPC 2007 Resource Plan. Exhibit 1; Exhibit 41.

26. Mr. Heck submits pre-filed supplemental direct testimony which provides:

   a) A general overview of the renewable energy department;
b) An overview of geothermal development since the inception of the Portfolio Standard; and

c) An identification of issues or problems impeding a more rapid development of future renewable energy generation. Exhibit 43.

27. In response to questions from Mr. Schmidt regarding whether SPPC had made a decision to terminate the RPPAs upon completion and commercial operation of the EN-Ti, he states that SPPC has an expectation to terminate these agreements. However, the agreements were crafted to provide optional termination to account for a situation where it could be beneficial to both SPPC’s and NPC’s customers to keep the RPPAs in effect. He explained that a reason justifying not terminating the agreements includes a situation where the cost of wheeling the energy from Northern Nevada to Southern Nevada increases the price of the product from the geothermal resources to NPC customers such that they would pay a higher price than what SPPC would willingly purchase the power. In this case it would be to the benefit of both companies to keep the RPPAs in place. Tr. at 488-490.

28. Mr. Lawrence M. Holmes, Manager, Customer Strategy and Programs, sponsors the portions of Volume V and Technical Appendix I that relate to the Demand Side Plans. Exhibit 1; Exhibit 49.

29. Mr. Holmes submits pre-filed supplemental testimony providing a review of the cost-benefit tests used to evaluate DSM “projects” and then critiques the results of the cost benefit tests for each project. Exhibit 50 at 1.

30. Mr. Gregory A. Kern, Director for Energy Efficiency and Customer Strategies, sponsors the portions of Volume VI, Section 1 (Supply Side Plan) that relate to the SolarGenerations project and Distributed Generation. Exhibit 1; Exhibit 54.

31. Dr. David Harrison, National Economic Research Associates, sponsors the portions of Volume VI, Section 1 (Supply Side Plan) that relate to the environmental costs and economic benefits analyses for the various expansion plans considered. Exhibit 1; Exhibit 39.
32. Mr. Brian Whalen, Manager, Transmission Engineering, sponsors Volume VI, Section 2 (Transmission Plan). Exhibit 1; Exhibit 60.

33. Mr. Whalen provides supplemental direct testimony addressing the following:
   a) Whether any of the transmission projects listed in SPPC’s application are needed in full or in part to support power deliveries from the EEC. If any are needed for the EEC, whether it would be more appropriate to address approval of these projects in the upcoming EEC Amendment; and
   
   b) Whether SPPC has determined an alternative to the Emma Substation.

The transmission facilities for which SPPC is requesting Commission approval in this proceeding are required to connect new load in the Reno / Carson City area to any generation east of this load and would be needed with or without the EEC. It would not be more appropriate to address these projects in the 2008 Ely Energy Center amendment filing. Exhibit 61 at 4.

34. Sierra found that there are no cost effective alternatives to the Reno – Carson 345 kV loop as proposed in 2004 IRP and the 2006 IRP amendment. It has identified several alternate sites for the Emma Substation that are located in the general vicinity of the preferred site and would perform acceptably from a logistical standpoint. Id. at 5.

35. Ms. Judith Murray, Manager of Market Fundamentals, sponsors those portions of Volume IV that address market fundamentals and the gas and power price forecasts. Exhibit 1; Exhibit 9.

36. Mr. Joseph R. Brignola, Manager, Coal Procurement & Operations, sponsors those portions of Volume IV that address coal price forecasts. Exhibit 1; Exhibit 12.

B. Staff Position

37. Mr. Paul R. Maguire, Electrical Engineer with Staff, provides the following recommendations:

   a) Do not approve the revised budget of $16.5 million associated with the King’s Beach diesel replacement project;
b) Approve SPPC's request to continue to operate the meteorological station at the Valmy plant site;

c) Do not formally accept SPPC's status reports on previously approved projects such as the Tracy 541 MW combined cycle unit, the Ely Energy Center and EN-TI project;

d) Find that SPPC has complied with Long-Term Avoided Costs ("LTAC") rate requirements as specified in NAC 704.9492, but the Commission should not approve the methodology and block size as required by NAC 704.9496. SPPC should be ordered to re-file its LTAC rates (including its proposed methodology and block size) when it files the EEC Amendment;

e) Approve construction of the Bordertown Transmission Capacity Project;

f) Deny the Ft. Sage Transmission Capacity Project. Instead the Commission should approve construction of the proposed Plumas-SPPC 120 kV Interconnection and authorize SPPC to investigate only the feasibility of permitting the Ft. Sage Transmission Capacity Project. These tasks are estimated to cost $17 million;

g) Approve construction of the Emma Transmission Capacity Project;

h) Approve construction of the Fallon Capacity Project;

i) Approve construction of the 345 kV Voltage Support Project, but it should remain incumbent on SPPC to ensure that installation of the proposed capacitor banks remain the optimum solution;

j) Authorize SPPC to conduct the routing study on substation transmission line routes conditioned on SPPC’s ratepayers only being responsible for any costs of this study if SPPC contracts with or builds generation resources that utilize facilities made possible by the study and provide benefits to SPPC's ratepayers. SPPC should be ordered to place the costs of this routing study in a regulatory asset account until such a time that SPPC actually constructs one of the transmission projects it is proposing to study;
k) Approve SPPC's request to participate in the EEI Spare Transformer Equipment Program. Participation in this program is estimated to cost $2.5 million during the Action Plan Period;

l) Approve SPPC's request to continue its involvement/membership in WestConnect. Continued participation in WestConnect is estimated to cost $105,000 during the Action Plan Period;

m) Approve the three new RPPAs (associated with Carson Lake Basin Project LLC, TG Power LLC, and ORNI 20 LLC), but order SPPC (and NPC) to amend these RPPAs (and all of the previously approved RPPAs) on or before December 1, 2008. This new filing should incorporate updated information on the capacity rating and cost of the Tracy combined cycle unit and include a "Network Transmission Upgrade" cost component in the transfer pricing methodology;

n) Approve Amendment No. 1 to the long-term agreement for the purchase and sale of electricity between SPPC and Steamboat Hills, LLC. Exhibit 44 at 3, 4.

38. Mr. Maguire testifies that SPPC should have requested resource planning approval to continue with construction of the King's Beach Diesel Replacement Project ("King's Beach") at the new project cost instead of just requesting approval of the new budget. The $16.5 million for King's Beach appears to be consistent with the lowest cost bid that was received. Staff is not making any formal recommendation regarding King's Beach, but continues to believe that with the exorbitant cost of replacing what are fully functional units, that the Commission should inform SPPC that recovery of some, if not all, of the costs of installing these new units may have to be sought from SPPC's California customers. Id. at 6-8.

39. With regard to Staff's recommendation that the Commission not formally accept SPPC's status reports on previously approved projects such as the Tracy 541 MW combined cycle, the EEC and the EN-TI project, Mr. Maguire indicates that SPPC has not requested nor highlighted any specific information explicitly seeking acceptance/approval of previously approved projects and Staff is unaware of any regulations or statutes that require the Commission
to formally accept updated information on such projects. In addition, SPPC has stated that it has never, in any past IRP filing, ever requested formal acceptance of the status of previously approved projects. Id. at 12 and Attachment PRM-15.

40. With regard to SPPC's request for approval of its methodology for developing its LTAC rates and a 25 MW block size under which to offer those LTAC rates, although the LTAC rates included in SPPC's application appear to be a reasonable estimate, they are dependent upon future resource additions that SPPC is considering, including the EEC. If the EEC is delayed, or if the Commission finds that SPPC's participation should be different than 20%, the LTAC rates as proposed by SPPC would change. Id. at 14. In addition to restating SPPC's justification for supporting the project, Mr. Maguire identifies reliability benefits and reduced transmission restriction benefits associated with the proposed project. Id. at 19, 20.

41. Regarding SPPC's request for Commission approval of the Ft. Sage Transmission Capacity Project, Staff's position is that the Commission should deny approval of the project and instead approve only construction of the proposed Plumas-SPPC 120 kV interconnection and authorize SPPC to investigate just the feasibility of permitting the project. Mr. Maguire's concerns include: a) the appearance that the project is not needed until 2014, based upon information submitted by SPPC; b) the detailed localized load forecast growth projections appear to be inconsistent with SPPC's load forecasting projections used in developing its energy and peak load forecast; the project need is supported by speculative renewable resource development; and the proposed route is in close proximity to an area where the local jurisdiction, Washoe County, has previously required a 120 kV transmission line to be installed under ground, causing the project cost to increase significantly. Id. at 22-24.

42. The construction of the Plumas-SPPC interconnection coupled with the permitting activities for the Ft. Sage project is estimated to cost $17 million ($12 million for the interconnection and $5 million for permitting related to the Ft. Sage project). Id. at 25.

43. Mr. Maguire recommends that the Commission approve the Emma Transmission Capacity Project, and justifies this approval based on the reliability benefits claimed by SPPC
coupled with another of the project's attributes, namely, alleviating the must run requirements on the Ft. Churchill units. Id. at 28, 29.

44. Mr. Maguire recommends approval of the Fallon Capacity Project and states that the project need is supported by continued load growth in the Fallon area and evidence to support SPPC's position that the 60 kV system currently used to serve the City of Fallon is at its limits. The current project scope is inconsistent with the project scope listed in SPPC's IRP application. Id. at 29-31.

45. Mr. Maguire recommends approval of the 345 kV Voltage Support Project, based upon the supplemental information (economic analysis) provided by SPPC and acknowledgment that it is typically more efficient to install reactive support at substations than to produce the reactive support at major power plants and supply this reactive power to the distribution system. Id. at 32.

46. Mr. Maguire recommends Commission authorize, with limitations, SPPC's request for Commission approval to conduct routing studies, as discussed in his recommendations above. SPPC is currently in compliance with the State's RPS and SPPC is forecasted to not need any additional non-solar renewable resources until the year 2024. It appears that the study is being performed for the benefit of NPC and perhaps the Nevada renewable industry as a whole and not for the benefit of SPPC's ratepayers. Id. at 34 and Attachment PRM-41. On redirect, Mr. Maguire clarifies that the Falcon - Humboldt routing was not needed for SPPC but would be needed to make deliveries from Valmy to an eastern entity should a new Valmy unit be constructed. Tr. at 900, 901.

47. Mr. Maguire supports SPPC's request for approval to participate in the EEI Spare Transformer Equipment Program based upon the cost saving and reliability benefits ratepayers receive by participating in the program. SPPC should keep the Commission informed (and potentially file a resource plan amendment) if SPPC's cost responsibility for participating in the program increased significantly beyond $2.5 million. Id. at 36, 37.
48. Mr. Maguire recommends approval of SPPC's request to continue its involvement/membership in WestConnect, because WestConnect is currently working on a variety of projects to try to enhance and improve the efficiency of the transmission system in the Desert Southwest. With the proposed north-south intertie, SPPC participation in the WestConnect organization seems appropriate. Id. at 37, 38.

49. Mr. Maguire recommends approval of SPPC's request for approval of three new RPPAs, conditioned on SPPC's amending these RPPA's to incorporate updated generator capacity cost and network transmission upgrade cost components. First, the capacity cost that SPPC would pay in accordance with the proposed RPPAs is based upon a Tracy combined cycle unit with a capacity value of 514 MW. The Tracy combined cycle unit is now expected to have a capacity rating of 541 MW. This change in output capacity should alter (lower) any monthly capacity payments made by SPPC to NPC. Second, the transfer payments in the proposed RPPAs do not reflect the cost of transmission network upgrades required to support power transfers from the renewable resources to load. These upgrades will not be paid for by the renewable developer, but instead will be paid for by SPPC and collected through general transmission rates. A network upgrade component should be added to the transfer pricing methodology to compensate SPPC's customers for an increased transmission costs that may be incurred as a result of the installation of any network transmission upgrades associated with these projects. Id. at 38-41.

50. Mr. Maguire states that SPPC's request for approval of Amendment No. 1 to the long-term agreement for the purchase and sale of electricity between SPPC and Steamboat Hills, LLC, is not likely to have an effect on the operation of the plant or a material effect on the price that ratepayers pay for any energy delivered. Id. at 42, 43.

51. Mr. Maguire also provides testimony regarding keeping generation units as backup resources for emergency purposes versus retiring the units. Id. at 43, 44.

52. Ronald L. Knecht, Staff Economist, provides testimony addressing SPPC’s request for approval of its financial plan. He provides the following recommendations:
a) Find that six improvements are necessary in any future SPPC amendment to its Integrated Resource Plan ("IRP") involving the proposed Ely Energy Center ("EEC") coal-fired power plant and related transmission facilities to allow adequate consideration by the Commission of the financial plan issues raised by the EEC - namely:

i) An exact specification of the ownership division of the EEC between SPPC and NPC, supported by an explicit analysis demonstrating why the proposed division is economically efficient, fair and in the public interest;

ii) Separate dispatch modeling and production-cost and related analyses for SPPC and NPC, not the combined-utility modeling and analysis SPPC presented in this docket;

iii) Lower assumed debt financing relative to total capital than the 57% ratio used in this docket by SPPC - such as a 53% ratio;

iv) Assumed inflation rates that are constant over the period of analysis;

v) Use of a 10% per year real reference discount rate;

vi) Separate and concurrent analyses of the two ratemaking incentives sought by SPPC to support the EEC - namely, increased allowed rates of return on equity and a current cash return on construction work in progress ("CWIP") - including annual figures in each scenario for revenue requirements ("RRs"), average system rates, rate base and all relevant financial metrics.

b) Conclude that the public interest requires that SPPC incorporate items a-f listed in recommendation 1 above into its next IRP financial plan filing related to the EEC;

c) Order that SPPC incorporate items a-f listed in recommendation 1 above into its next IRP financial plan filing related to the EEC;

d) Find that SPPC's filed financial plan contains the formal elements required in an IRP filing but that, due to failure to satisfy items a-f listed in recommendation 1 above, the
data contained in them do not provide sufficient evidence to assess SPPC's financial, ratepayer and related public-interest issues raised by its proposed IRP; and
e) Conclude that, due to failure to satisfy items a-f listed in recommendation 1 above, it is not in the public interest to approve SPPC's filed financial plan as it relates to the EEC because the data it contains does not provide sufficient evidence to assess SPPC's financial, ratepayer and related public-interest issues raised by its proposed IRP. Exhibit 79 at 1, 2.

53. Mr. Knecht lists a number of concerns with the analytical tools, practices, assumptions or inputs used by SPPC in its application. Several follow:

a) SPPC has been assigned 20% of the cost of the EEC without having made an express showing of why that division is economically efficient, fair and in the public interest. SPPC should be required to make a showing in its first IRP amendment filing involving the EEC as to what division is economically efficient, fair and in the public interest and SPPC should be required to use the resulting division as the basis of its IRP and financial plan analyses. If SPPC updates its estimated cost for the EEC, it should use the updated cost in the project allocation and all other analyses. Id. at 7. In response to clarifying questions from the Commission, Mr. Knecht states that by "updated cost of the project" he meant that SPPC should use the best cost estimate available at the time the amendment is filed. Tr. at 881.

b) SPPC's dispatch modeling to estimate production costs used the aggregated loads and resources of NPC and SPPC. Because these companies face materially different costs and opportunities, this combined-dispatch approach may not accurately reflect SPPC's true expected production costs and other financial, ratemaking and economic characteristics of the EEC proposal for SPPC and its ratepayers. Id. at 7.

c) SPPC's financial analyses fails to separate the effects of each of the incentives it has assumed will apply to the EEC. This practice does not allow SPPC, other parties, or the Commission to ascertain the individual effects of each incentive in the financial and present worth of revenue requirements analyses in SPPC's financial plan. Id. at 8. It is very important
that SPPC’s future filing seeking approval of the EEC include four separate financial cases in which neither incentive, both incentives and each individual incentive is incorporated into the ratemaking and other financial plan analyses. As to why he thought it was important to quantify the rate impact of each of the proposed incentives individually, Mr. Knecht states that such quantification will allow the Commission to determine how much each incentive contributes to the financial health of SPPC and allow for good transparent public policy when determining the rate impact of each incentive on rates and ratepayers. Tr. at 881, 882.

54. Yasuji Otsuka, Senior Economist with Staff, recommends that the Commission order SPPC to complete the following in future filings related to its long-term supply plans and amendments to such plans:

a) Clarify the procedure SPPC uses to select the supply options from which the preferred plan is selected;

b) Consult Staff and BCP regarding selection of supply options as least six months before the filing of an Integrated Resource Plan;

c) Include supply options with larger shares of renewable energy than required by the Portfolio Standard;

d) Evaluate supply options on the SPPC present worth of revenue requirements, environmental and societal costs, and economic benefits to the state; and

e) Provide a thirty-year analysis of environmental and societal costs if SPPC believes that a thirty year period is more appropriate to evaluate the PWRR of supply options; and Provide an analysis of sensitivity for major assumptions regarding environmental costs, especially allowance prices of carbon dioxide (“CO2”). Exhibit 75 at 1, 2.

55. Mr. Otsuka states that a greater contribution of renewable resources than required to meet the Portfolio Standard is necessary to meet the expected future demand given the increasing likelihood that some type of regulation will be imposed on CO2 emissions, with any costs associated with the regulation passed onto ratepayers. Id. at 5.
56. The PWRR evaluations presented in SPPC’s IRP were not specific to SPPC ratepayers but instead included PWRR values for NPC and SPPC. Therefore, the preferred plan, which was developed by SPPC, may show what is in the best interest of the combined companies but it does not show what is in the best interest of SPPC ratepayers. Id. at 6.

57. SPPC’s argument that a thirty-year PWRR analysis is appropriate given that the projects being modeled have an in-service date well into the planning period has some merit. Id. at 9.

58. Howard Hirsch, Staff Economist, provides Staff’s recommendations concerning the adequacy of the load forecast and the fuel and purchased power price forecasts presented by SPPC. He also addresses the adequacy of aspects of SPPC’s electric and gas demand-side management plans. Exhibit 76 at 1.

59. Mr. Hirsch provides the following recommendations:

a) Order SPPC to account for weather conditions throughout its Nevada service territory when used as an explanatory factor in forecasting models or for the purpose of normalizing historical consumption;

b) Order SPPC to consider prices of substitute fuels, employment, income, etc., as factors affecting the variability of energy use;

c) Order SPPC to use a single value representative of peak weather conditions for both forecasting and generation facilities operations analysis;

d) Approve SPPC’s monthly load forecast for 2008-2012, included in the Confidential Material and Confidential Technical Appendix for Volume III, Energy Supply Plan;

e) Order SPPC to account for DSM and conservation impacts in energy and peak load forecasts accompanying future resource plan filings such a manner as not to double-count historical savings already achieved;

f) Approve SPPC’s natural gas, coal, and purchased power price forecasts as reflecting the consensus of individuals and institutions knowledgeable of trends in market conditions;
g) Approve Items 1, 2, 3, 6, 8, and 9 in SPPC's requests (Volume V: Electric Demand Side Plan, pp. 8-11);

h) Deny Items 5 and 11 related to freeridership and require SPPC to conduct further research into freeridership levels experienced specifically within its Nevada service territory;

i) Approve Item 7 and require SPPC to meet the conditions listed in Q & A 45;

j) Deny compliance item 4;

k) Deny compliance item 10, and address the issues raised in SPPC's next general rate case;

l) Approve SPPC's requests for approval of the following Electric Demand Side Plan programs: i) Sure Bet Commercial Customer Incentives; ii) Sure Bet New Construction; iii) Energy Star Lighting and Appliances, under the requirements specified in his testimony; iv) Sure Bet Small Hotels and Motels for 2008 only; v) Energy Education and Consultation, under the requirements specified in his testimony; vi) Second Refrigerator Recycling Program, under the requirements specified in his testimony; vii) Home Energy Display; viii) Market and Technology Trials; and ix) DSM vs. Renewables Modeling;

m) Deny SPPC's requests for approval of the following programs: i) Low Income Project; ii) Sure Bet Schools; iii) 80 Plus and Energy Star Plug Loads; iv) Energy Star New Manufactured Homes; and v) Non-Profit Agency Grants;

n) Approve the following programs in its Natural Gas Demand Side Plan: i) High Efficiency Space Heaters; ii) Water Heater Blankets; iii) Market and Technology Trials; and iv) Gas Education; and

o) Deny approval for the Low Income Weatherization program element of SPPC's Natural Gas Demand Side Plan. Id. at 1-3;

60. With respect to the Commission ordered compliance item that SPPC expand participation in the DSM Collaborative to include a wider base of constituencies, Mr. Hirsch states that SPPC has completed this compliance to a limited extent but that the collaborative still does not have members representing ratepayer or business advocacy groups. Id. at 13.
61. With respect to whether SPPC has complied with the Commission's order to quantify the effects of freeridership on DSM programs, Mr. Hirsch notes that SPPC has identified estimates of freeridership for its DSM programs. However, he recommends that the Commission deny SPPC's use of these estimates as the assumptions that underlie these estimates are not applicable to SPPC's Nevada service territory. Mr. Hirsch identifies dissimilarities in climate between the two states as one reason for not using California freeridership estimates in Nevada.¹ SPPC's erroneous assumption in this regard calls for a more localized approach to freeridership. Id. at 15. Mr. Hirsch recommends denial of SPPC's request not to expend $987,500 for primary research into freeridership but instead authorize a lower amount as a preliminary step in making adjustments. Mr. Hirsch did not have a specific amount in mind. Tr. at 875.

62. With regards to whether SPPC has complied with the Commission's order to utilize updated values of savings estimates in future cost-effectiveness evaluations, Mr. Hirsch states that SPPC has complied. SPPC supplied a table of energy savings achieved in 2006 to accompany each of its current project data sheets where applicable. Id. at 17.

63. Mr. Hirsch states SPPC has partially complied with Prayer for Relief item 22, compliance 7. SPPC should be required to show that it has met its outreach objectives for Energy Education and Consultation in its next Annual DSM update report. Id. at 17, 29.

64. Mr. Hirsch has verified that SPPC is in compliance with Prayer for Relief item 22, compliance 8 (pertaining to the refrigerator recycling compliance). Id. at 18.

65. Mr. Hirsch recommends that the Commission deny SPPC's request for permission to allow a budget deviation of up to 20 percent for the Sure Bet Commercial Incentives, Energy Star Lighting and Appliance, and Second Refrigerator Recycling projects. Pre-approval of budget flexibility is unnecessary and inappropriate in an integrated resource plan filing because it is always incumbent upon the utility to ensure that its expenditures are just and reasonable.

¹ Mr. Hirsch states that SPPC claims that, "Given that California and Nevada are neighbors, similar in climate, and have similarly-designed energy efficiency projects in many cases the research and analysis team concluded that California's NTGRs could be used for deemed values as defaults in Nevada."
Under this arrangement, SPPC has sufficient incentive to overrun its proposed budget because its cost recovery plus bonus is not based on program effectiveness, but only on dollars spent. Id. at 19.

66. Mr. Hirsch recommends that the Commission approve funding for the Compact Fluorescent Light ("CFL") component of the Energy Star Lighting and Appliance program, provided the following conditions are met: a) this program element should not extend beyond 2011; b) no DSM credit should be claimed for bulbs sold after 2011; c) SPPC will file with the Commission a plan to monitor the installation of CFLs distributed through this program by means of a follow-up survey of a sufficient random sample of participants; and d) SPPC will file with the Commission a plan to ensure that CFL distribution under this program is made only to SPPC Nevada customers, and that any DSM credits for this program are not claimed for CFLs distributed to non-Nevada SPPC customers. The Commission should deny the appliances component of SPPC’s Energy Star and Appliances Program because of the limited number of units to be sponsored, the lack of incentive to individual customers from the small rebate in relation to the purchase price of appliance units, the increasing unavailability of appliance units not meeting Energy Star efficiency standards, and the high level of freeridership associated with participation in this project. Id. at 21, 26.

67. Mr. Hirsch recommends that the Commission approve SPPC’s request for the Second Refrigerator Recycling program, provided the following conditions are met: a) SPPC will conduct a survey to determine the extent of second refrigerator ownership within its service territory, as well as the ages and energy use profiles of the appliance stock; and b) SPPC will recalculate the savings per unit to be claimed based on units recycled, as done in Appendix C of the Measurement and Verification Report. Id. at 22.

68. With regard to the Sure Bet Hotel/Motel program, Mr. Hirsch recommends that the Commission approve this project for 2008 with expected funding of $934,000, with approval for 2009 subject to achievement of favorable performances metrics in 2008 to be reported by SPPC in its next DSM annual report. Id. at 27.
69. Mr. Hirsch states that the Commission should not approve the Low Income program, based upon its poor performance. Mr. Hirsch adds that the Commission should also consider the inequity resulting from continuing this program. SPPC is allowed to earn an enhanced rate on the dollars spent on this program. This is unacceptable as it essentially allows SPPC to fund a welfare program with ratepayer money and earn an incentive-bolstered profit while doing so. Id. at 28.

70. With regard to the Sure Bet Schools, Mr. Hirsch states that SPPC's claimed TRC benefit/cost ratio of 1.06 renders this project of marginal benefit and therefore the Commission should not approve this program. Id. at 28.

71. Mr. Hirsch recommends that the Commission approve the Energy Education and Consultation program for 2008 with estimated funding of $330,000 but require SPPC to show that it has met its outreach objectives and demonstrated progress in measurement and verification of energy savings from its project in its next annual DSM report. Id. at 29.

72. Mr. Hirsch recommends that the Commission not approve the 80 Plus and Energy Star Plug Load even though it has a Total Resource Cost ("TRC") test benefit/cost ratio of 1.4 as there is no direct link between consumer purchase of targeted equipment and the largest share of expenditures for this project, and consequently, no guarantee that the proposed rebates will have any effect on such retail purchase in SPPC's Nevada service territory. Id. at 29.

73. Mr. Hirsch recommends that the Commission not approve the Energy Star New Manufactured Homes as there is no direct incentive to the home buyer to purchase such units, and current housing market conditions in northern Nevada suggest little opportunity to make such incentive payments. Id. at 30.

74. With regard to SPPC's Natural Gas Demand Side Plan, Mr. Hirsch recommends: a) approval of all programs except the Low Income Weatherization Program\textsuperscript{2}; b) The cost incurred by these programs should be recovered in compliance with the Commission's order in

\textsuperscript{2} His reasons for not recommending approval of the Natural Gas Low Income Weatherization program are the same as those stated for the Electric Low Income Weatherization program.
Docket No. 07-06049

Docket No. 05-100021; and c) The Commission should consider allowing incentives for natural gas demand programs in Docket No. 07-06046. Id. at 31.

75. Mark P. Harris, Staff Resource Planning Engineer, addresses SPPC's request for Commission approval to expend $11,190,500 during SPPC's Action Plan Period for the Solar Generation Program. He recommends that the Commission approve $12,273,000, an amount higher than that requested by SPPC in its application, for the Solar Generation Program. The higher amount requested by Staff is based upon its estimate of the expected cost for this program. Exhibit 74 at 1, 2.

C. BCP Position

76. Carl B. Linvill, Director of Energy Planning and Analysis with Aspen Environmental Group, reviews Electric and Gas DSM programs proposed by SPPC and provides recommendations regarding the eleven compliances and requests that can be found in SPPC's application. Exhibit 67 at 1-3.

77. The BCP's primary goals with regard to DSM are: a) to ensure that the DSM programs are as cost effective as possible; b) to support the development of a DSM infrastructure in Nevada that allows Nevadans to significantly reduce their energy expenditures by reducing their energy consumption. Mr. Linvill adds that the BCP also seeks to ensure that the DSM programs are well-designed, capture the appropriate level of efficiency opportunities, and serve customers classes equitably. Id. at 3.

78. A summary of his findings follows:

a) The Company's DSM programs have generally performed well and the complete slate of programs offered for the 2008-2010 action plan period is justified;

b) The Company has improved its DSM evaluation tools in response to Commission orders and DSM Collaborative input but continuing effort to understand and address certain limiting assumptions is required;
c) The United States Department of Energy ("DOE") elevation of manufacturing standards for air conditioners to SEER 13 from SEER 10 has required and will continue to require that the Company substantially expand and diversify other residential program offerings;

d) The Low Income Weatherization Program underperformed by some measures but the extension of the income threshold to 80% of median income and the Company's request to explore outsourcing options for delivering the program should provide flexibility that will initiate program performance improvements and contribute to market transformation in the residential retrofit market;

e) The TRC test should continue to be used as the primary criteria for evaluating programs; and

f) The Low Income Weatherization Program progress should be tracked with a modified TRC test to reflect the health and safety benefits delivered by the program.

79. Mr. Linvill provides the following recommendations:

a) The DSM programs and budgets found on pages 4 through 8 of Volume V-E for the Electric programs and pages 3 through 5 of Volume V, Gas Demand Side Plan ("Volume V-G") be approved subject to certain compliances;

b) That compliances 1,3,4, 5, 7, and 8 found on pages 8 through 10 of Volume V-E be deemed satisfied;

c) That compliance 2, 6 and 9 found on pages 9 through 11 of Volume V-E be maintained as compliances, the Company continue to interact with the DSM Collaborative to further improve its economic evaluation tools;

d) The request identified as 10 on page 11 of Volume V-E should be granted subject to a qualification that the deviation from the proposed budget should seek to maintain the 50% residential requirement for DSM Portfolio Energy Credits;

e) The request identified as 11 on page 11 of Volume V-E should be granted with the understanding that the net to gross ratios ("NTGR") offered by the Company are proxy
values that should be interpreted as lower bounds for the Company's NTGR for each respective DSM program; and

f) The TRC test should continue to be used to evaluate DSM programs and that a modified TRC test be established to track progress in the Low Income Weatherization Program. Id. at 4, 5.

80. With regard to SPPC’s economic analysis of DSM programs avoided cost, Mr. Linvill states that on balance the avoided cost estimates are acceptable for establishing the cost effectiveness of the programs presented. Id. at 5, 6.

81. With regard to freeridership, Mr. Linvill states that one would expect DSM program NTGRs to be lower in California than Nevada due to higher penetration of energy efficiency in California. California spends hundreds of millions of dollars every year on publicly administered efficiency programs which suggests a higher customer awareness of DSM programs. Mr. Linvill does not support spending additional funds to produce an original study of freeridership and spillover effects in Nevada. The BCP supports SPPC’s usage of deemed free rider rates but believes that the NTGRs adopted from California studies should be interpreted as a lower bound for NTGRs in Nevada. Id. at 7, 8.

82. The removal of the AC rebate program due to higher efficiency manufacturing standards and the passage of AB 178 which will establish CFLs as the standard general purpose lighting project in Nevada requires SPPC to work aggressively with the DSM Collaborative to create a new direction for residential programs. Id. at 20.

83. The BCP supports SPPC’s stated intention to continue to pursue the 50% residential program target for the following reasons: a) Building codes and standards in Nevada have only recently incorporated aggressive energy efficiency standards and about 90% of the all homes were built prior to these new standards; and b) with natural gas prices continuing to be volatile and with new investments scheduled to be added to the rate base in the SPPC’s service

3 A lower NTGR (net to gross ratio) value suggests a higher level of freeridership.
territory, electric rates are likely to continue to rise and the Commission should be concerned with building a program that adds more tools to the residential consumer’s toolbox. *Id.* at 10.

84. Mr. Linvill explains why market transformation of the retrofit market in the residential sector is difficult and the low income weatherization program would become more cost effective if market transformation were to take hold in the residential sector. *Id.* at 11, 12.

85. The BCP supports SPPC’s proposed change in the threshold for weatherization services from 60% of median income to 80% of median income. Increasing the threshold broadens the market for the program and increases the prospects for creating a market segment that can support further expansion of retrofit services. *Id.* at 13.

86. Mr. Linvill supports SPPC’s Electric and Gas DSM programs and budgets: a) SPPC has used the collaborative process to identify and select a slate of highly cost effective DSM programs; b) SPPC intends to supplement the implementation of the protocols to perform process and program evaluation of its programs to ensure that the programs are being delivered cost effectively; c) SPPC has established the Portfolio Pro tool and has improved it in response to constructive criticisms; d) SPPC is producing TRC results and other DSM benefit cost test results for all of its programs and is clearly reporting those results; and e) with the exception of the Low Income Weatherization Program, SPPC programs pass the TRC test even with the inclusion of a freeridership factor and without the avoided cost benefits of transmission, distribution and O&M. *Id.* at 14, 15.

87. Compliances 2 (expand participation in the DSM Collaborative) and 9 (enlist the help of the Staff and the BCP to recruit potential DSM program participants) should be continued due to ongoing changes in programs that will require new stakeholders to be added. *Id.* at 16.

88. The BCP recommends that SPPC be allowed to deviate from the budgets for the Sure Bet Commercial Incentives project, the Energy Star Lighting and Appliance project and the Second Refrigerator Recycling project. The deviation should not be used to circumvent AB 3 goals. *Id.* at 17.
89. The BCP recommends that the TRC test continue to be generated for the Low Income Weatherization program but argues that tracking progress in the Low Income program over time is better achieved by generating a supplemental measure. The health and safety benefits associated with Low Income Weatherization programs be accounted for and reported and that a Low Income TRC measure be created to ensure that all of the costs and all of the benefits of Low Income programs are reflected and tracked as the program is delivered. Id. at 19, 20.

90. Mr. Dale A. Stransky, Engineer for the BCP, provides testimony addressing the three RPPAs between SPPC and NPC related to geothermal power purchase agreements, the King’s Beach Diesel Replacement project, transmission projects and miscellaneous items sought in SPPC’s 2007 IRP. Mr. Stransky recommends the following:

a) That the Commission reject SPPC’s request for acceptance of the status reports for the Tracy 541 MW combined cycle project and the EEC and EN-TI projects;

b) That the Commission reject SPPC’s request for approval of $22 million for the Fallon Transmission Capacity project due to a complete revision of the project’s scope of work where such a revision should be addressed in a future plan amendment; and

c) That the Commission reject SPPC’s request for approval of three Related Power Purchase Agreements with NPC regarding the geothermal Carson Lake Basin project LLC, T G Power LLC and ORNI 20 LLC projects; and

d) Mr. Stransky states that the BCP does not oppose Prayer for Relief items: 1, 2, 3, 4, 5, 7, 8, 9, 11, 12, 13, 14, 18, 19 and 36. Exhibit 45 at 2-4.

91. With regard to King’s Beach, Mr. Stransky states that SPPC grossly underestimated the cost for this project when it presented it in its Thirteenth Amendment to its 2004 IRP. In that amendment the project cost was listed at $8.34 million. In its application in Docket 07-06049, the project cost is listed at $16.5 million or a 98 percent increase over the original estimate which was approved by the Commission. Decisions made in the resource
planning process are made between supply options based on a number of factors including an evaluation and the comparison of costs. Mr. Stransky has concerns that the projects SPPC is originally selecting, proposing and seeking Commission approval for are based upon estimates that are not reliable for use in a resource planning process. Id. at 5, 6.

92. Mr. Stransky states that the need or requirement to replace the existing diesel units at King’s Beach is predicated by current California emission regulations. The existing units will not be allowed to operate after June 1, 2008. Due to this timing constraint, it appears that SPPC could not develop nor construct a potential transmission option as a reliable alternative to replacing the existing diesel units. Id. at 6.

93. Mr. Stransky states that the Commission should reject SPPC’s request for acceptance of the status reports for the Tracy 541 MW combined cycle project and the EEC and EN-TI projects. The status reports were not included in SPPC’s application nor addressed in any part of the filing. There is no resource planning regulation that requires that project status reports be accepted by the Commission. Id. at 7, 8.

94. The Commission should reject SPPC’s request for approval of $22 million for the Fallon Transmission Capacity project because the scope of the project has changed. Id. at 8.

95. NPC’s contract administration strategy for geothermal resources results in establishing a phantom need for additional base load coal resources in 2012 and 2013 as presented by SPPC. NPC’s geothermal resources, 162 MW of total capacity, listed in its Loads and Resources table for 2012 will be making actual deliveries to SPPC within its system. If SPPC becomes the buyer and NPC would only directly purchase PCs from SPPC, then 162 MW of geothermal capacity during the peak hour would be available to SPPC beginning in 2012. This additional 162 MW of capacity during peak hour would completely negate the peak hour need represented by 150 MW of additional coal resources for SPPC’s proposed 20 percent participation of 150 MW from EEC Unit 1 shown in 2012 in SPPC’s L&R Table. These geothermal resources collectively offer an annualized average supply amount of 227 MW. Given this comparison, NPC’s current geothermal RPPAs could negate all of SPPC’s proposed
need of 150 MW in 2012 and 150 MW in 2013 related to its participation in EEC Unit 1 and Unit 2, respectively. By NPC’s current structuring of its RPPAs for the geothermal resources, the result establishes a phantom need for SPPC. *Id.* at 11, 12.

96. Mr. Strasky proposes an alternative contract arrangement between SPPC and NPC that he believes would provide a present value savings to SPPC ratepayers of approximately $95 million from not participating in EEC Unit 1 or a possible $115 million in savings from not participating in EEC Unit 1 and Unit 2 if this revised strategy is implemented. *Id.* at 14-18.

97. The Commission should reject SPPC’s request for approval of the three RPPAs given that his alternate contract arrangement shows that if SPPC is assigned as buyer for NPC’s Geothermal RPPAs there will be significant cost savings to SPPC and its ratepayers. *Id.* at 18.

D. NCARE Position

98. Ezra D. Hausman, PH.D, Senior Associate at Synapse Energy Economics provides testimony regarding SPPC’s 2007 IRP. Specifically, he addresses whether SPPC appropriately considered the costs associated with future CO₂ emissions and recent trends in the observed and forecasted capital costs for new coal-fired generating plans. Exhibit 63 at 1, 2.

99. Dr. Hausman concludes that while SPPC performed a cursory evaluation of the impact of CO₂ emissions costs on the proposed alternative resource plans presented in the IRP documents, it failed to incorporate the cost of future CO₂ emissions in developing those plans. Accordingly, he states it is not reasonable to use a comparison of these plans as the basis for finding the least-cost or least-risk resource development pathway. The prudent course would be for SPPC to develop the plans from the beginning using realistic estimates of the future cost of carbon emissions. Dr. Hausman further concludes that the carbon emissions prices assumed by SPPC in comparing the costs of carbon emissions among the plans are out of date and unrealistic given the likely form an impact of future carbon regulation. He provides a range of prices that should be considered for the purposes of long-range utility resource planning, documentation and comparative analysis to substantiate these numbers. *Id.* at 3.
100. Dr. Hausman provides an overview of the general rising trend in the capital costs of coal plants and some discussion of how this trend should be taken into account in considering SPPC’s plan. Id. at 3.

101. Dr. Hausman provides the following recommendations concerning the costs associated with CO₂ emissions:

a) The Commission should require SPPC to withdraw its plan and create a new plan, in which a comprehensive range of alternative resources and realistic resource costs are considered. In this new plan, SPPC should be required to consider up front all of the costs associated with each resource option, including the costs likely to be associated with the emissions of carbon dioxide in the future. SPPC should consider a range of forecasts for CO₂ prices and provide a reasonable comparison of the economic benefits of alternative plans given a realistic range of future carbon emissions prices. A sensitivity test, at least, using a high price scenario especially for the out years should be required;

b) That the Commission require SPPC to model CO₂ costs as an up-front variable operating cost on all carbon dioxide emitting resources in its system, so that the assumed CO₂ costs realistically influence the relative costs of operating these resources and thus properly inform resource development decisions;

c) If the Commission chooses not to require SPPC to re-analyze and resubmit its plan using the approach he has outlined and including realistic CO₂ emissions costs, he recommends that the Commission require that SPPC shareholders bear the risk of paying for the failure of the SPPC to prudently and realistically consider future CO₂ compliance costs. Id. at 3, 4.

102. Dr. Hausman provides the following recommendations concerning the cost of new coal power plants:

a) That the Commission require SPPC to file, as part of its resource plan, a sensitivity study showing what the least-cost plan would be if coal plant cost were 30%, 50%, or 100% higher than the baseline costs projected in its plan;
b) That an independent engineering firm, retained by the Commission Staff at SPPC's expense, be asked to review these cost estimates and provide an opinion in an affidavit on whether they are reasonable and consistent with current and expected market conditions including recent and expected trends in the costs of materials, labor, and technology;

c) That if it appears that resource construction costs will be significantly different from those SPPC used in developing its plan, that the Commission use the results of the sensitivity study to determine whether SPPC should withdraw its plan and produce a new least-cost resource plan using updated cost assumptions; and

d) If the Commission chooses not to require SPPC to conduct or provide any further analysis on coal plant construction costs and their impact on its resource plan, the Commission should cap the cost that SPPC is allowed to recover on the proposed new coal plants at the levels used in producing the IRP filing. *Id.* at 5.

103. The Commission should require SPPC to model CO₂ costs as an up-front variable operating cost on all CO₂ emitting resources on its system so that the assumed CO₂ costs realistically influence the relative costs of obtaining these resources and thus properly inform resource development decisions. *Id.* at 4.

104. There are increasing numbers of legislators who appear inclined to support passage of legislation to regulate the emissions of greenhouse gases. *Id.* at 15.

105. It is generally accepted that domestic U.S. and worldwide competition for power plant design and construction resource, commodities, and manufacturing capacity have led to significant increases in power plant construction costs in recent years. Dr. Hausman provides number of citations supporting this position. *Id.* at 31-34.

106. Mr. Michael Mendelsohn, Senior Policy Advisor for Western Resource Advocates provides testimony addressing the following:

a) The IRP filing of SPPC does not fulfill the requirements of multiple sections of the Nevada IRP regulations, as written in the Nevada Administrative Code;
b) The discount rate applied by SPPC is inappropriately high, particularly to evaluate the cost of non-capital expenditures including fuel, variable operation and maintenance and emission allowance costs, as well as indirect costs, or externalities; and

c) SPPC inappropriately kept confidential numerous components of its IRP filing, including its coal and natural gas forecast and the sensitivity analyses it conducted. Exhibit 65 at 1-3.

107. Mr. Mendelsohn recommends that the Commission reject SPPC’s filing and require it to re-file the IRP to include the following: a) evaluation of alternative portfolios with increased levels of renewable resources and DSM investment; b) evaluation and inclusion of results of all portfolios under a broader array of sensitivity cases, as required by the NAC, relating to critical input factors including alternative discount rates that more accurately reflect the cost of funds necessary to purchase non-capital expenditures and the societal costs associated with health and environmental externalities; and c) the removal of confidential status to the fuel and power market forecasts, the renewable plan, and the description of sensitivities conducted by SPPC. Id. at 13.

108. Mr. Howard Geller, Executive Director of the Southwest Energy Efficiency Project (“SWEEP”), provides the following comments regarding:

   a) SPPC’s DSM programs;

   b) The additional potential for cost-effective energy efficiency improvements in the SPPC service area;

   c) How SPPC has treated DSM in its load forecast;

   d) Key issues related to DSM program analysis and implementation including avoided cost estimation; and

   e) The utility has not fully accounted for the contribution of DSM resource in its load forecast. Exhibit 66 at 2.

109. Mr. Geller recommends that:
a) SPPC be directed to achieve the maximum amount of cost-effective energy savings through its DSM programs;

b) In light of experience in Nevada and elsewhere, the utility should be able to save at least 1% of its electricity sales through DSM programs each year, and recommends that SPPC be directed to meet or exceed this savings target;

c) Electricity savings targets be established for a ten-year rather than three-year period. Id. at 2;

d) The following programs and corresponding budgets be approved as proposed: i) The Energy Star Lighting and Appliance program; Id. at 7. ii) The Second Refrigerator Recycling program; Id. at 8. iii) The Energy Star Manufacturer Homes program; Id. at 8. iv) The 80 Plus and Energy Star plug load program; Id. at 10. v) The Sure Bet commercial incentives program; Id. at 10, 11. vi) The Sure Bet Schools program; Id. at 11;

e) The Home Energy Display program be approved by the Commission, scaling up during 2008-2010, dependent on proving that the technology provides adequate energy savings during the pilot state and can be deployed in a cost-effective manner. As part of this evaluation, SPPC should pay particular attention to the issue of persistence of energy savings. Id. at 9;

f) The Commission approve a direct installation component for small customers to the Sure Bet Commercial Incentive Program ("Sure Bet") as was proposed by NPC in its 2006 IRP. Mr. Geller recommends adding $300,000 to the budget in 2008, $400,000 in 2009 and $500,000 in 2010. Id. at 11.

g) The Commission order SPPC to carry out even greater marketing and technical assistance and increase the budget to achieve more participation, greater energy savings and a better economy of scale and suggests that the program include a focus on proper building commissioning once a new building is occupied. Id. at 11, 12;

h) Sure Bet for small and medium size hotels and motels be continued for a third year (2010) rather than just run for two years as proposed. Id. at 12;
i) The Commission direct SPPC to examine the feasibility of a stand-alone quality installation program and propose such a program in its first amendment to the DSM plan if the program appears to be cost effective. Id. at 13;

j) The Commission direct SPPC to keep evaluating a potential ENERGY STAR plus new homes and propose implementing such a program in the next amendment to the DSM programs if the program is economically and technically viable. Id. at 15;

k) The Commission direct SPPC to include avoided T&D costs in the primary economic analysis of DSM programs in all future reports and filings. Id. at 16;

l) The Commission direct SPPC to review the avoided cost assumptions it is assuming in its DSM program analyses and use more up-to-date avoided costs as described in his testimony. Id. at 16;

m) The Commission allow SPPC to increase its budget by 20% for incentive programs such as the Sure Bet schools, hotel/motel and new construction programs. In addition the Commission should allow flexibility in the total budget amount so that the utility does not need to cut back on one cost-effective program in order to meet unexpected demand for services or incentives in another program. Id. at 17;

n) The Commission direct SPPC to correct the apparent discrepancy between assumed energy savings from DSM programs in the DSM Plan in SPPC’s load forecast. Id. at 19; and

o) The Commission direct SPPC to maintain the average level of energy savings provided by propose DSM programs during 2008-2010 for the full 20-year forecast period in SPPC 2007 IRP. Id. at 19.

110. It is not appropriate to limit DSM program budget estimates and savings targets to the first three years of the 20-year planning period. In order to ensure that these are necessary and appropriate resource choices for SPPC and its customers, it is essential that SPPC fully analyze and consider the role that cost-effective demand-side resources can plan in meeting the
projected demand for electricity and energy services in its service territory over the same
planning period. \textit{Id.} at 4.

111. The Commission should establish 1\% annual energy savings targets over at least a
ten-year period in this docket and direct SPPC to strive to meet or exceed the targets through
DSM programs for as long as sufficient cost-effective programs can be designed and
implemented. The targets would be used in the IRP and elsewhere as a proxy for expected
energy savings from DSM programs over a ten-year period. \textit{Id.} at 5, 6.

\textbf{E. SPPC Rebuttal Position}

112. Mr. Denis addresses issues: a) raised by Staff witness Paul Maguire regarding
cost recovery for King’s Beach and proposed transmission line Routing Studies; b) raised by Mr.
Maguire and Mr. Stransky regarding SPPC’s status reports for the Tracy, EEC, and En-Ti
projects; and c) raised by Mr. Mendelsohn’s regarding the confidential aspects of SPPC’s filing.
Exhibit 36 at 1, 2.

113. With regard to Mr. Maguire’s position that the Commission should inform SPPC
that recovery of some, if not all, of the costs of installing King’s Beach may have to be sought
from SPPC’s California customers, Mr. Denis states that he does not believe that Nevada would
lightly accept a decision by the California Public Utilities Commission to assign to Nevada
customers all of the costs associated with environmental compliance for generation units located
in this state. The Staff and BCP’s positions would place SPPC in an unacceptable “Catch-22,”
with the Commission directing SPPC to replace the units, but at the same time placing recovery
of the prudently incurred costs at risk. This would not be an appropriate or fair solution. SPPC
respectfully requests that the Commission approve the revised budget for the King’s Beach
Diesel Replacement Project, with the understating that Nevada’s load ratio share of the prudently
incurred costs will be recovered in Nevada rates. Alternatively, the Commission should direct
SPPC to halt work on this project. \textit{Id.} at 13.

114. With regard to Mr. Maguire’s position regarding SPPC’s proposed routing
studies, Mr. Denis states that SPPC’s shareholders should not be expected to accept the risk that
prudently incurred costs associated with the routing studies will not be recoverable in rates. SPPC respectfully requests that the Commission approve the routing studies with the understanding that SPPC will recover the Nevada-jurisdictional portion of the prudently incurred costs in rates. Alternatively, the Commission should direct SPPC not to conduct the routing studies. Id. at 14.

115. With regard to Staff and BCP’s position that the Commission should not approve the status reports for the Tracy, EEC, and EN-Ti, SPPC thought that the information provided would be useful to the Commission and is surprised by the procedural arguments of the Staff and BCP. Mr. Denis testifies that if the Commission does not wish to receive status reports on major projects like the EEC in the future, then SPPC certainly will accommodate that preference. If the Commission does wish to receive such reports, and if the content of the reports are undisputed, SPPC would ask that they be formally accepted. Id. at 16.

116. With regard to Dr. Mendelsohn’s position that SPPC inappropriately filed certain information under seal, the information that SPPC filed under seal is commercially sensitive and its public disclosure would negatively impact SPPC’s ratepayers. Mr. Denis states that NCARE requested access to confidential minutes of the Board of Directors, Enterprise Risk Oversight Committee, and Energy Risk Committee. SPPC offered to provide those documents to NCARE for on-site inspection. NCARE did not schedule an on-site inspection, did not request access to any other confidential information, and did not provide the information requested by SPPC for producing a confidentiality agreement. Id. at 16, 17.

117. Mr. Rodgers’ rebuttal testimony addresses Staff witness, Ron Knecht, and NCARE witnesses Ezra Hausman and Michael Mendelsohn regarding their positions on SPPC’s proposed financial plan. Exhibit 38 at 1.

118. Mr. Rodgers disagrees with Mr. Knecht that the Commission should not approve SPPC’s financial plan because it does not include the six items listed in Mr. Knecht’s testimony. Mr. Rodgers provides his arguments justifying his position and notes that Staff did not raise any of these items in the workshops that preceded SPPC’s filing. Id. at 2-8.
119. Mr. Rodgers disagrees with Mr. Mendelsohn’s position that SPPC’s Weighted Average Cost of Capital (“WACC”) is an inappropriately high discount rate for non-capital expenses such as fuel and variable O&M. Even assuming a change in the current practice of using the utility’s cost of capital were warranted, such a change should be addressed in a rulemaking proceeding rather than in a resource planning case. Mr. Rodgers further notes the Commission’s Order in Docket 05-08004 where a similar issue was addressed. Id. at 7-9.

120. Mr. Rodgers responds to Mr. Knecht’s recommendations that the financial plan should not be approved because SPPC failed to separately quantify the proposed CWIP and ROE incentives for the EEC and that the Commission should order SPPC to submit four separate financial plans – CWIP only, CWIP and ROE, ROE only and neither CWIP nor ROE. Mr. Rodgers does not believe that the additional analyses are required. The Commission’s “critical facility” regulations are not intended to tie the availability of the incentive to financial need. Id. at 9.

121. Mr. Rodgers responds to Dr. Hausman’s position that shareholders be placed significantly at risk for carbon costs and construction costs for the EEC. Mr. Rodgers states that the types of conditions proposed by Dr. Hausman would make the preferred plan extremely difficult, if not impossible, to finance. Id. at 10.

122. In response to questions from the Commission regarding whether NPC or SPPC in Docket Nos. 06-06051 and 06-07013 requested approval of a financial plan, NPC and SPPC did not request approval of their respective financial plans and did not receive explicit approval of a financial plan in these docket. Mr. Rodgers suggested that the companies did not make such a request because they would be bringing more data forward on the EEC. With respect to the variety of the uncertainties on actual timing and costs, they weren’t prepared to address the financial plan at that point in time. Mr. Rodgers states that the adequacy of the companies’ financial plans in those docket was essentially protected by the assumption that the plans were a placeholder until the companies could complete additional analysis with respect to the EEC option. Mr. Rodgers states that, with respect to SPPC’s Financial Plan in this docket, Docket
No. 07-06049, SPPC is making the same assumption about the allocation of costs between NPC and SPPC as it did in Docket Nos. 06-06051 and 06-07013. SPPC’s current position is similar to NPC’s in that the data isn’t the best and SPPC is waiting to present updated cost and timing data next year. Tr. at 442-444.

123. In response to questions from Chairman Kelly regarding the EEC amendment, Mr. Rodgers states that it is SPPC’s position that the Amendment filing will include current cost data for fuel, fuel transportation, equipment, construction costs and a financial plan that will reflect the utilities ability to finance its preferred plan. Mr. Rodgers agreed that the costs will have to reflect the current status of legislation or the best estimates that SPPC can provide with respect to the costs of carbon. Mr. Rodgers agreed that CWIP and the timing of that CWIP will be laid out carefully in SPPC’s amendment. Mr. Rodgers further agreed that with respect to requested incentives in the amendment, that SPPC would provide detailed analysis of not only the financing aspects or how the incentives enhance the financing of the plant, but also the cost to the ratepayers. Tr. at 445-449.

124. In response to a question from Chairman Kelly, Mr. Rodgers agreed that SPPC’s position with respect to Commission acceptance of its Financial Plan in this filing should really not have been much different than in Dockets Nos. 06-06051 and 06-07013. Tr. at 449.

125. Dr. Harrison responds to testimony provided by Staff witness, Dr. Otsuka and NCARE witnesses, Dr. Hausman and Mr. Mendelsohn, regarding the treatment of CO₂ emissions costs. Exhibit 40 at 2.

126. Dr. Harrison agrees with Dr. Otsuka that it is not necessary to update the CO₂ emissions values for this filing, given that the four supply options under consideration have virtually the same CO₂ emissions, and given the considerable uncertainties in assessing future CO₂ emissions values. Dr. Harrison also agrees with Dr. Otsuka that for future filings in which CO₂ emissions differ substantially among supply options, it would be desirable to provide a thirty-year analysis for environmental and societal costs to complement the thirty-year analysis of private costs. This analysis would include an updated assessment of CO₂ emission values.
127. It is premature to comment on Dr. Hausman’s testimony, which focuses on potential values for CO₂ costs based upon potential future cap-and-trade programs. These issues would be relevant for future filings in which CO₂ emissions differ substantially among supply options. Id. at 4.

128. Dr. Harrison disagrees with Mr. Mendelsohn’s suggestion to use multiple discount rates to evaluate various aspects of the supply options because it would tend to confuse rather than illuminate the comparisons among the supply options. It is inappropriate from an economic standpoint to discount the different values for a given expansion plan differently. The use of a single discount rate to discount costs and benefits is fundamental in economic guidelines, such as those developed by the Office of Management and Budget (Circular A-4, September 17, 2003). Id. at 4, 9.

129. Ms. Franklin responds to the testimony of BCP witness, Mr. Stransky and Staff witness, Mr. Maguire regarding the allocation of costs for the King’s Beach Diesel Replacement Project. Exhibit 80 at 2, 3.

130. Ms. Franklin states that Staff’s proposal to allocate a disproportionate amount of the costs for replacing King’s Beach to California customers would be inappropriate from both an operating and cost of service perspective for the following reasons: First, SPPC does not plan and operate its system based upon jurisdictional boundaries. As a system resource, King’s Beach provides reliability benefits within the Tahoe Basin which includes service to both Nevada and California customers, and it contributes to operating reserve requirements for the Balancing Authority Area (formerly control area). Second, the cost of complying with federal, state and local governments is part of the cost of building a generator in a particular location. Because most of SPPC’s generators are located in Nevada, California customers are paying for standards, regulations and requirements imposed by local Nevada governmental agencies. Third, SPPC is unfamiliar with any ratemaking or allocation convention that would support the proposal to directly assign the costs of environmental compliance at King’s Beach to California customers. Either the total cost of the generator should be allocated to California customers or it should all
be directly assigned. Under such a scenario, Nevada customers could not be expected to derive any benefit from the facility. In the event of the loss of the Brunswick to King’s Beach transmission line serving the Incline Village, Nevada area, Incline Village, Nevada customers could not expect California customers to reroute King’s Beach generation via local distribution facilities to Nevada customers unless the California customers received some form of compensation. Id. at 4-6, Attachment “Exhibit Franklin Rebuttal 2” at 1, 2.

131. Mr. John Lescenski addresses issues raised by: a) Staff witness, Mr. Maguire, and BCP witness, Mr. Stransky regarding cost recovery for King’s Beach; b) Mr. Maguire regarding Valmy; and c) NCARE witness, Ezra Hausman regarding the rising trend in capital costs for generation projects. Exhibit 81 at 2.

132. With regard to Mr. Maguire’s and Mr. Stransky’s position on King’s Beach, there are two reasons from a technical standpoint that SPPC believes that California customers should not pay more than their load ratio share of the replacement costs for the diesels. First the California Air Regulation that is the catalyst for the Project protects the health and safety of everyone in the surrounding area including Nevada customers. Allocating a disproportionate share of the cost of the project to California customers would force those who do not live near the project to pay for the upgrades, while allowing Nevada customers, who do live near the project to avoid cost responsibility. Second, the units provide operational benefits to customers in both states. Id. at 3, 4.

133. Mr. Lescenski is concerned with Mr. Maguire’s recommendation that SPPC should not review any Valmy option that would have it taking more than 250 MW from a Valmy coal unit. SPPC’s need for generation at Valmy has not been specifically defined. SPPC would like to retain the ability to study a variety of options to provide the capacity required for its customers. Id. at 6.

134. With regard to Dr. Hausman’s concerns regarding the trend of rising capital costs for generation projects, Mr. Lescenski states that SPPC is well aware of this trend. Updated costs for the EEC will be available when SPPC and NPC file their Amendment in 2008. Id. at 6.
135. Mr. Whalen responds to Staff witness, Paul Maguire, and BCP witness, Dale Stransky, regarding SPPC's transmission plan. Exhibit 69 at 1, 2.

136. With regard to Mr. Maguire's recommendation that the Commission deny the Ft. Sage Transmission Capacity Project because it is not needed until 2014, Mr. Whalen states that SPPC developed a low flow case for 2011 without the Ft. Sage – Tracy line. That case showed the need for this line to avoid a Mira Loma – Airport 120 kV overload and potential cascading outages. The conditions assumed in the low flow case without the line actually occurred on July 5, 2007, as shown in Exhibit Whalen-Rebuttal-2. This analysis demonstrates that this line is need sooner, not later, than the 2011 in-service date that SPPC has proposed. Id. at 6.

137. With regards to Mr. Maguire's request that SPPC clarify in its rebuttal certain changes in the Fallon Capacity Project design, Mr. Whalen states that additional evaluation and more mature renewable resources in the area-led SPPC to design an improved plan of service in the form of an integrated service plan for Fallon and three renewable developers using common facilities. By integrating all of these projects with one service plan, SPPC can avoid up to 4 parallel transmission lines into Carson Lake Substation, will be better able to electrically protect its system and can provide greater reliability to the generators in the area. The original cost estimate for the project is $22 million. The current cost estimate (with revised scope) is $28.2 million. Id. at 8.

138. Mr. Whalen disagrees with Mr. Maguire's proposed accounting treatment of the expenses for the routing studies. It is prudent to spend $4 million during the action period on routing studies, whether or not it actually builds each of the alternatives to be investigated. Mr. Maguire's proposal to approve studies but put SPPC at risk for cost recovery is not reasonable and seems calculated to subject SPPC to hindsight prudence review. Id. at 10.

139. In response to clarifying questions from the Commission regarding which routing studies would benefit SPPC's customers, Mr. Whalen indicated that the Fallon – Humboldt routing study at a cost of $280,000 and the Emma - Ft. Churchill routing study at a cost of $165,000 would benefit SPPC's customers. Tr. at 763; Exhibit 71.
140. Mr. Pottey rebuts or responds to the direct testimony of BCP witness, Mr. Stranksy, Staff witnesses, Dr. Otsuka and Mr. Maguire, and NCARE witnesses Dr. Hausman and Mr. Mendelsohn. Exhibit 47 at 1, 2.

141. Mr. Pottey disagrees with Mr. Stranksy’s recommendation that the Commission reject SPPC’s request for approval of its RPPAs with NPC. Mr. Pottey also disagrees with Mr. Stranksy’s recommendation that SPPC should contract for this geothermal energy rather than NPC, and that SPPC should then sell the portfolio credits to NPC. At the present time SPPC has no need for additional capacity, energy or PCs and does not require additional long-term contracts for the purchase of these geothermal resources. Id. at 5.

142. Mr. Pottey disagrees that Mr. Stranksy’s proposal would result in lower costs for SPPC. Mr. Stranksy’s predicted lower costs are based on forecast costs under the RPPA, which may or may not be correct under actual future market conditions. The transfer pricing methodology was developed with SPPC’s need for energy in mind, and was developed to ensure that Sierra would not incur any increased costs. Id. at 5.

143. In response to questions from Staff regarding Mr. Stranksy’s position on the RPPA’s Mr. Pottey states that the current price forecast for power deliveries from the EEC reflects that power from the EEC is less costly than power from the geothermal resources. Tr. at 571.

144. For the reasons provided in his testimony, Mr. Pottey disagrees with Dr. Otsuka’s position that SPPC should perform Present Worth of Revenue Requirements, Present Worth of Societal Cost and economic benefits to State evaluations of supply options from a SPPC only and not a joint company (NPC and SPPC) perspective. Id. at 7, 8.

145. With regard to Dr. Otsuka’s recommendation that the Commission order SPPC to provide a thirty-year analysis of environmental and societal costs and an analysis of the sensitivity for major assumptions regarding environmental costs especially allowances prices for CO\textsubscript{2}, Mr. Pottey states that because the existing Resource Planning regulations already require SPPC to conduct a sensitivity analysis of major assumptions there is no need for the Commission
to order additional sensitivity analysis regarding environmental costs. Sierra is not opposed to providing a thirty-year analysis of environmental and societal costs when a thirty year PWRR analysis is appropriate in future filings. Id. at 8, 9.

146. Mr. Pottey disagrees with Mr. Maguire that the RPPA’s should be amended to incorporate updated information on the capacity rating and cost of the Tracy combined cycle unit. An update is unnecessary. The approved costs and capacity remain a reasonable proxy for the value of additional capacity. After the addition of the new Tracy combined cycle unit in 2008, SPPC should not need additional capacity through the in-service date of the EN-Ti. Therefore, it is unlikely that SPPC will have to make significant payments to NPC for capacity as the “payment for capacity provision” in the RPPAs may never be exercised. Id. at 9, 10.

147. Mr. Pottey disagrees with Mr. Maguire that the RPPAs should be amended to include a “Network Transmission Upgrade” cost component in the transfer pricing methodology. The cost impact of any network transmission upgrades associated with the geothermal projects that initiated the RPPAs should be minimal. SPPC does not believe that it would be worth the cost and administrative burden to amend all RPPAs before this Commission and the FERC to incorporate the relatively small changes due to the addition of a network transmission upgrade component in the Energy Rate of the RPPA. SPPC would be willing to consider making modification to future RPPAs or in the transfer pricing mechanism to reflect such transmission cost issues. Id. at 12, 13.

148. Mr. Pottey agrees with Mr. Maguire that it would be more appropriate to set the LTAC rates in the EEC amendment docket when it is anticipated that SPPC will request approval for a portion of the EEC project. Id. at 13.

149. Mr. Pottey disagrees with Dr. Hausman that SPPC has not taken CO₂ emission costs into account in developing its IRP and that CO₂ emission costs should be included up front as a variable operating cost for each resource. SPPC’s filing lists its expected cost for CO₂ and SPPC calculated the PWSC in accordance with the Nevada Resource Planning regulations. Id. at 15.
150. Mr. Pottey disagrees with Dr. Hausman that SPPC should have considered a range of potential CO₂ emission costs and coal plan costs. Changing the CO₂ emission cost would have no material effect on the ranking of the plans. The only new coal plant included in SPPC's resource plan is the EEC, which is treated as an approved resource and is common to all expansion plans. Id. at 16.

151. Mr. Pottey disagrees with Mr. Mendelsohn that SPPC did evaluate renewable resources above what is required by the Renewable Portfolio Standard. SPPC’s existing and future renewable resources already greatly exceed the requirements of the RPS. SPPC expects not to have a need for additional resources of any type until 2018. Id. at 16, 17.

152. Mr. Pottey disagrees with Mr. Mendelsohn that SPPC should have included incremental DSM above what is included in its DSM plan. The proposed DSM plan already includes a very large increase in the amount of DSM programs above what has been proposed in previous Resource Plans. The inclusion of additional DSM programs beyond what is currently in the plan would potentially result in the selection of uneconomic programs. Id. at 17, 18.

153. Mr. Larry Holmes responds to portions of the testimony of Staff witness Howard Hirsch, BCP witness Carl Linvill, and NCARE witnesses Howard Geller and Michael Mendelsohn. Exhibit 72 at 2.

154. With regard to Mr. Hirsch’s recommendation to deny SPPC’s request for approval of the Non-Profit Agency Grant Project, Mr. Holmes states that accepting Mr. Hirsch’s position would set new criteria for the approval of DSM projects (projects with TRC cost/benefits close to but greater than 1 don’t pass) and would create a chilling effect on the development of new projects and an additional hurdle for the development and implementation of energy efficiency measures for residential projects. Id. at 6.

155. With regard to Mr. Hirsch’s recommendation for approval of the Energy Education Project for 2008 with funding of $330,000 but require SPPC to show it has met its outreach objectives and demonstrate progress in measurement and verification of energy savings from the project in its next annual report, Mr. Holmes states that it is important to note that the
next Annual DSM Update Report will address the project performance for 2007 and not 2008 and thus will not reflect the performance of the 2008 project year. Id. at 7.

156. With regard to Mr. Hirsch's recommendation to deny SPPC's request for approval of the low income project, Mr. Holmes states that the performance of project in 2006 was adversely impacted by the poor performance of the sub grantee engaged to perform the weatherization work. Corrective action has been taken to restore the program's poor performance. Id. at 8.

157. With regard to Mr. Hirsch's recommendation to deny the continuation of the appliance rebate portion of the energy Star Lighting and Appliance Project, Mr. Holmes states that SPPC has re-evaluated the appliance incentive portion of the program and has determined that the effectiveness of this measure has diminished such that it should be discontinued. Id. at 9.

158. With regard to Mr. Hirsch's recommendation that the Commission deny approval of the Energy Star New Manufactured Homes, Mr. Holmes states that SPPC utilizes upstream incentives for several projects where such a practice results in optimal project performance. The important issue is whether the program results in energy savings that are passed onto the customer (located in SPPC's service territory). Id. at 12.

159. With regard to Mr. Hirsch's recommendations that the Commission deny approval of the 80 Plus program because there is no direct link between consumer purchase of targeted equipment and the largest share of expenditures for this program (the incentive to the manufacturer), Mr. Holmes lists a seven step process which delineates the link between the upstream incentive and the consumer. Id. at 16.

160. Mr. Holmes states that the basis of compliance item 4 is that there is value in expedited treatment to get meters set for new construction when there is a backlog of applications for new service connections and meter sets such that developers and homebuilders are delayed in completing their projects. SPPC's interconnections cycle times are now low enough so that further expediting SPPC's process would have little benefit for developers and
homebuilders. Therefore, the incentive provided would not encourage more energy efficient new home construction. \textit{Id.} at 18, 19.

161. Mr. Holmes disagrees with Mr. Hirsch's recommendation regarding compliance item 5, which is to deny SPPC's request not to expend $987,500 for primary research into freeridership. The freeridership issue addresses the behavior and decision making of participants in the DSM projects. Simply normalizing for degree day differences in not appropriate as suggested by Mr. Hirsch. SPPC engaged the services of consultants, Rick Ridge Associates, experienced in evaluating customer behavior in terms of freeridership. After extensive review and discussion this team developed and recommended NTGRs for SPPC. SPPC does not consider the $987,500 budget for primary research for freeridership an effective expenditure of scarce DSM resources. \textit{Id.} at 20.

162. Mr. Holmes disagrees with Mr. Hirsch's position that SPPC did not comply with compliance item 7 related to actual number of customer counts. Because the compliance item was created late in 2006, SPPC did not have full information for every event and estimated actual contacts at some events. SPPC fully complied with the requirement to report the numbers separately for those receiving conservation bags or similar items at trade shows and for those attending presentations or classes. \textit{Id.} at 22.

163. With regard to Mr. Hirsch's recommendation to deny SPPC's request to allow budget deviations for the Sure Bet Commercial Incentives, the Energy Star Lighting and Appliances, and the Second Refrigerator Recycling Projects, Mr. Holmes states that the Commission has in previous Dockets allowed such a budget deviation.\footnote{In Dockets Nos. 06-03038 and 06-04018, the Commission stated, "The Commission expects that the Companies have in place adequate controls and documentation to ensure that spending remains with approved levels. However prudent management of DSM programs is not necessarily achieved only by remaining with Commission approved budgets. In particular, when there is strong customer demand for highly cost-effective programs, such as the Sure Bet Commercial Incentive Program and the ACLM, the Companies should be able to respond to such demand without having to file a resource plan amendment. Therefore, the Commission approves a 20 percent deviation in the program budgets as the trigger point for a resource plan amendment for the ACLM and Sure Bet Commercial programs."} SPPC's request of the Commission is solely for a determination that a 20 percent deviation for these specifically highly
cost effective projects that are in high demand by customers would not trigger the requirement for a resource plan amendment. SPPC acknowledges that the prudence of the actual expenditures would be determined in a subsequent rate case. Id. at 24.

164. With regard to Dr. Geller's recommendation that the Commission establish one percent annual energy savings targets, Mr. Holmes states that Dr. Geller has not provided any sound basis that one percent is a prudent target. Furthermore, establishing a target for ten years as Dr. Geller proposes does not recognize the changing environment under which DSM programs currently operate. Id. at 25.

165. With regard to Dr. Geller's recommendation that the Sure Bet Small Hotels and Motels program be expanded to include a third year, Mr. Holmes states that this DSM program has been designed to substantially exhaust the market for targeted potential hotel and motel installations within two years. Id. at 26.

166. With regard to Dr. Geller's issues related to treatment of DSM in the Load Forecast, Mr. Holmes states that Dr. Geller's conclusions are based upon the net incremental energy savings each year, not the amount of energy saved each year. For the purposes of determining the DSM energy savings input to the 2007 IRP, SPPC assumed that the DSM plan for 2010 would be repeated for each and every year for the period of 2010 through 2028. The energy savings are in fact level for each of those years. Id. at 27.

167. Mr. Kern responds to the direct testimony of Mr. Stransky relating to the SolarGenerations Program and provides his reasoning for why it is appropriate for the Commission to review the SolarGenerations Project through the resource planning process. Exhibit 55 at 1.

168. Mr. Thompson responds to the recommendations of Staff witness, Mr. Hirsh and the NCARE witness, Dr. Geller concerning the adequacy of the load forecast presented by Sierra in support of its 2007 IRP. Exhibit 59 at 2.

169. With regard to Mr. Hirsh's recommendations that the Commission order SPPC to consider prices of substitute fuels, employment, income, etc, as factors affecting the variability
of energy use and to account for DSM and conservation impacts in energy and peak load forecasts accompanying future resource plan filings in such a manner as not to double-count savings already achieved, Mr. Thompson states that he does not disagree with these recommendations but does not believe a Commission order is necessary as SPPC already considers prices of substitute fuels, employment, income, weather and conservation and DSM impacts in its load forecasts. Id. at 3, 4.

170. Mr. Thompson does not disagree with Mr. Hirsch’s recommendation that the Commission order SPPC to account for weather conditions throughout its Nevada service territory, but explains that SPPC’s models already do so. Id. at 4.

171. With regard to Mr. Hirsch’s recommendation that the Commission order SPPC to use a single value representative of peak weather conditions for both forecasting and generation facilities operations analysis, Mr. Thompson explains that it would be impractical for SPPC to accept Mr. Hirsch’s recommendation. Id. at 5, 6.

172. With regard to Mr. Geller’s identification of a discrepancy between the energy savings projected in SPPC’s DSM plan and the energy savings used in creating the load forecast, Mr. Thompson states that Dr. Geller is correct and there is a small discrepancy. The discrepancy is due to minor adjustments that were made to DSM energy savings estimates after the load forecast had been finalized. The discrepancy addressed by Dr. Geller is immaterial as it represents only about one-third of one percent of the total energy of SPPC’s customers in Nevada. Id. at 7.

173. Mr. Heck responds to prepared testimony of BCP witness, Mr. Stransky, regarding NPC’s and SPPC’s Related Power Purchase Agreements. Exhibit 48 at 2.

174. Mr. Heck states that Mr. Stansky is only partially correct regarding his assertion that all geothermal generating facilities are located in northern Nevada and therefore all deliveries of energy are to SPPC. It is NPC’s intent to deliver the renewable energy contracted for under the PPAs to NPC customers when a direct transmission path with sufficient capacity is
available. More than 90 percent of the contracted capacity is expected to be delivered to NPC’s customers via the EN-Ti for approximately 96 percent of the term of the PPAs. Id. at 3.

175. With regard to Mr. Stransky’s assertion that NPC could assign its geothermal contracts to SPPC, NPC has the right, not the obligation, to assign the contracts to SPPC, Mr. Heck states that an assignment of the PPAs would deny the benefits of the renewable energy to NPC customers. Id. at 4.

III. COMMISSION DISCUSSION AND FINDINGS

A. Load and Price Forecasts

176. The Commission finds based upon the evidence in the record that SPPC’s load and sales forecast is based on substantially accurate data and an adequate method of forecasting. The Commission also finds that SPPC’s electric load and sales forecast is the most accurate information upon which to base planning decisions over the next three years. Therefore SPPC’s electric load and sales forecasts are approved.

177. The Commission has considered Staff’s recommendations regarding SPPC’s electric load and sales forecast and SPPC’s rebuttal testimony indicating the company is already following many of these recommendations. The Commission is convinced by SPPC’s arguments that the Commission need not order SPPC to comply with Staff’s other recommendations. Therefore, Staff’s recommendations are denied.

178. The Commission finds based upon the evidence in the record that SPPC’s fuel and energy market forecasts as presented are the best and most accurate information upon which to base planning decisions over the next three years. Therefore, SPPC’s fuel and energy market forecasts are approved.

B. Generation Projects

179. The State’s resource planning regulations are designed to allow the Commission to determine the adequacy of the utility’s plan to increase supply or decrease demands for electricity. Projects in the plan are approved if they adequately demonstrate economic,
environmental and other benefits to this State and to the customers of the utility. It is important
that project cost estimates be reasonably accurate when they are submitted to the Commission.
Inaccurate cost estimates can unduly influence the resource selection process and result in
Commission approval of a resource alternative that may be inferior to another option that was
available at the time the Commission issued its decision.

180. The Commission is quite concerned by the magnitude of the budget increase in
King’s Beach. The current cost estimate is consistent with actual bids that SPPC received for
construction of this project. Nevertheless, there are no available alternatives that can be
implemented before the existing King’s Beach diesels will no longer be allowed to operate.
Cancellation of the project at this point would decrease the reliability of electric service to
SPPC’s Tahoe Basin customers, both in Nevada and California after 2008. Therefore, the
Commission finds that SPPC’s request for approval of a revised budget for King’s Beach is
approved. Clear communication and reasonably accurate cost estimates are essential to the
success of the resource planning process. Approval of this budget should not be taken as a signal
that the Commission will tolerate a budget variance of such magnitude in the future. Action Plan
approval of the budget for this project is $16.5 million.

181. Regarding SPPC’s request to expend $100,000 during the Action Plan period to
continue to operate the meteorological station at Valmy Station in aid of future expansion, the
Commission indicated in its January 30, 2007, Order in Docket Nos. 06-06051 and 06-07010
that it expects SPPC to continue to investigate other available generation options. The
Commission also stated in its August 27, 2007, Order in this docket that a good faith
investigation of available options is intended. The Commission believes this expenditure is in
line with the direction given in these orders. Therefore, the Commission approves SPPC’s
request to expend $100,000 during the Action Plan period to continue to operate the
meteorological station at Valmy Station in aid of future expansion.

182. The Commission would like to see a status report of the projects for which it has
given resource planning approval and appreciates SPPC’s effort to provide such a report. The
Resource Planning regulations require a utility to include certain specific information regarding these projects. In fact, NAC 704.9489(3 & 4) require a utility to include, in its Action Plan Budget, planned expenditures suitable for comparing planned and achieved expenditures and, schedules suitable for comparing planned and actual activities and accomplishments. They further require that milestones and points of decision committing major expenditures must be shown. From the Commission's perspective, the status reports provided by SPPC contain only very general information. In fact, the budget or scheduling data appears incomplete and there is insufficient information to make an accurate and informed assessment of the status of all these projects. Therefore, the Commission finds that the status reports submitted by SPPC are not approved. SPPC shall include the information required by the resource planning regulations in future IRP filings.

C. Transmission Issues

183. SPPC was asked to provide, in supplemental testimony, an indication of whether the transmission projects for which it was requesting approval for in this docket were needed to support power deliveries from the EEC and, if yes, whether it would be more appropriate to consider these transmission projects in the EEC amendment filing that SPPC intends to file in 2008. SPPC indicated that the transmission projects are needed with or without the EEC. In addition, consideration of whether the transmission projects are needed to support the EEC underlay Staff's analysis and recommendations regarding SPPC's proposed transmission projects and expenditures.

184. The record reflects that the transmission projects requested by SPPC are needed to support load growth and/or to address reliability issues. The record also reflects that the expenditures for the Edison Electric Spare Transformer Equipment Program and for continued participation in WestConnect benefit SPPC and its customers are reasonable. Therefore, the Commission finds that the Bordertown Transmission Capacity Project, the Emma Transmission Capacity Project, the 345 kV Voltage Support Project, the expenses for the EEI Spare Transformer Program, and the Expenses for the membership in WestConnect are approved. The
Commission grants approval of these projects at expenditure limits consistent with the Action Plan budget amounts requested by SPPC. If material deviations from these estimates develop, SPPC shall file an amendment for additional approval.

185. The Commission finds that there is insufficient evidence in the record to support approval of the Ft. Sage Transmission Capacity Project. The Commission is very concerned about the reliability issue raised by SPPC in its rebuttal regarding this project. If necessary, SPPC is encouraged to file, in an amendment, a more substantive case expounding upon the need and timing for this project. However, the Commission finds that Staff witness Maguire’s recommendations for how to proceed with this project are reasonable. Therefore, the Commission is denying approval of the Ft. Sage Transmission Capacity project as proposed by SPPC and granting approval to construct the Plumas 120 kV Interconnection and to investigate only the feasibility of permitting the Ft. Sage Transmission Capacity Project. The budget during the Action Plan Period for these expenditures was estimated by Staff to be $17 million and budget approval is limited to this amount.

186. Regarding the BCP’s recommendation that the Commission reject the Fallon Transmission Capacity Project because its current scope is inconsistent with the scope for this project as listed in SPPC’s application, the Commission finds that rejection of the project is not warranted as the revised scope is consistent with the project’s original service plan. However, in the future, SPPC shall submit errata to its filing when the project scope for which it has requested Commission approval has significantly changed.

187. The Commission finds that the record supports approval of the Fallon Transmission Capacity Project as it is needed to support the electric system in the Fallon area. Therefore, the Commission approves the Fallon Transmission Capacity Project. Commission approval of Action Plan expenditures for this project is limited to $3 million.

188. Of the $4 million requested by SPPC for expenditures related to Routing Studies, the Commission finds that expenditures for the Emma - Ft. Churchill routing study at a cost of $165,000 and the Falcon – Humboldt routing study at a cost of $280,500 benefit SPPC’s
customers. The Falcon – Humboldt routing study will aid SPPC in its consideration of a Valmy expansion alternative. Therefore, the Commission approves expenditures during the Action Plan Period for these routing studies at the costs listed above.

D. **Renewable Energy Related Projects**

189. The Commission has considered the BCP’s recommendation to deny SPPC’s request for approval of the RPPAs and the BCP’s proposed alternative contract arrangement. Given SPPC’s admission that the assignment provisions in the purchase power agreements may be mutually beneficial to NPC and SPPC at a future date, further consideration of proposals, including one such as the BCP’s, may be appropriate. However, the Commission believes that consideration of any proposal should be made at a future date. The benefits of the BCP’s proposal are dependent upon circumstances that have not occurred and assumptions that may or may not be accurate. For example, the EEC and EN-Ti projects have not been constructed and revised cost estimates for these resources are not expected to be available until SPPC files its EEC Amendment in 2008. Furthermore, the geothermal resources that underlie the RPPAs have not been built and are not expected to be built and placed in commercial operation until the time period from 2010 through 2013. Therefore, the BCP’s recommendation to reject approval of the RPPAs is denied.

190. The Commission finds that it is in public interest to approve the RPPAs listed above. These agreements do not burden SPPC’s ratepayers and are necessary for NPC to comply with the RPS. Therefore, the Commission approves the RPPAs and their terms and conditions in their entirety.

191. With respect to Staff’s request that SPPC and NPC be required to amend the RPPAs to include updated capacity cost estimates and transmission upgrade costs, this request is denied. However, Exhibit 2A of each of the RPPAs states that, “The Rates for power sold under this Agreement have been designed to ensure that the amount paid by Buyer for capacity and energy received from Seller never exceed the cost that would have been incurred by Buyer had it relied upon its own resources or acquired such resources in an arms length transaction from an
unaffiliated seller in the regional bulk power market...” And, the Commission notes that the RPPAs each contain Amendment provisions that allow the parties to amend the agreement by mutual consent. It is the Commission’s position that RPPAs executed to facilitate NPC’s compliance with the RPS are to include transfer terms that do not result in subsidies between NPC and SPPC. SPPC and NPC shall use the Amendment provision in its RPPAs to ensure that these subsidies do not occur.

192. The record reflects that Ornat requested Amendment No. 1 to the Long-term Agreement for the Purchase and Sale of Electricity Between Sierra Pacific Power Company and Steamboat Hills, LLC, dated May 31, 2007, for tax related reasons and that the provisions of the amendment are not likely to have an effect on the operation of the plant or a material effect on the price ratepayers pay for energy from this facility. Based upon the information listed above the Commission finds the Amendment to be reasonable. Therefore, the Commission grants approval of Amendment No. 1 to the Long-term Agreement for the Purchase and Sale of Electricity Between Sierra Pacific Power Company and Steamboat Hills, LLC, dated May 31, 2007.

193. The record reflects that SPPC intends to use the SolarGenerations program as the vehicle for delivering and administering the Solar Energy Systems Incentive Program which was enacted by the Nevada Legislature in 74th Session. The language in SB 437 instructs the Commission to develop regulations for this program and allows the utility to recover all prudent costs incurred in administering this program. The Commission, in accordance with SB 437, has opened a rulemaking docket (Docket No. 07-06026) that addresses this program. The regulation resulting from this docket will likely affect SPPC’s budget for the SolarGenerations program. The Commission finds that the program is appropriate for implementing the Solar Energy Systems Incentive Program. As the budget for the SolarGenerations program will likely be affected by the outcome of the rulemaking docket, the Commission sees no reason at this time to assess the merits of Staff’s or SPPC’s estimated costs for implementing this program. Therefore, the Commission approves SPPC’s request to expend $11,190,500 million during that
Action Plan Period. If a budget modification is required based upon the outcome of the rulemaking docket listed above, then SPPC shall make a budget adjustment in a future amendment.

E. **Demand-Side Management Issues**

194. SPPC requested that the Commission find in accordance with NRS 704.746(3) that SPPC's 2007 Resource Plan identifies and takes into account present and projected reductions in demand for energy that may result from measures to improve energy efficiency. No parties provided recommendations for, or opposed, this request. The Commission has examined the filing and believes that the filing complies with the Statute. Therefore, the Commission approves SPPC's request in this regard.

195. SPPC requested that the Commission approve its Electric and Gas DSM Plans and budgets, which provide for expenditures of $29.8 million and $2.2 million, respectively, during the Action Plan Period. SPPC's, Staff's, the BCP's and NCARE's positions regarding approval of SPPC's DSM programs are summarized in the table that follows.
<table>
<thead>
<tr>
<th>Electric DSM Program</th>
<th>SPPC</th>
<th>Staff</th>
<th>BCP</th>
<th>NCARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Star Lighting and Appliances</td>
<td>Only Approve</td>
<td>Only approve</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sure Bet Commercial Incentives</td>
<td>Energy Star Lighting</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Home Energy Display</td>
<td>component</td>
<td>component</td>
<td>Approve</td>
<td>Approve</td>
</tr>
<tr>
<td>Sure Bet New Construction</td>
<td>Approve</td>
<td>Approve</td>
<td>Approve</td>
<td>Approve</td>
</tr>
<tr>
<td>Second Refrigerator Recycling</td>
<td>Approve</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sure Bet Hotel/Motel</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Income</td>
<td>Approve</td>
<td>Do not approve</td>
<td>Approve</td>
<td>Approve</td>
</tr>
<tr>
<td>Sure Bet Schools</td>
<td>Approve</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Energy Education and Consultation</td>
<td></td>
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<td></td>
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<tr>
<td>80 Plus and Energy Star Plug Load</td>
<td>Approve</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Energy Star New Manufactured Homes</td>
<td></td>
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<td></td>
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<tr>
<td>Non-Profit Agency Grants</td>
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<tr>
<td>Gas DSM Programs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Efficiency Space Heaters</td>
<td>Approve</td>
<td>Approve</td>
<td>Approve</td>
<td>Approve</td>
</tr>
<tr>
<td>Low Income Weatherization</td>
<td>Approve</td>
<td>Do not approve</td>
<td>Approve</td>
<td>Approve</td>
</tr>
<tr>
<td>Water Heater Blankets</td>
<td>Approve</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market and Technology Trials</td>
<td>Approve</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas Education</td>
<td>Approve</td>
<td></td>
<td></td>
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</tbody>
</table>

196. The Commission appreciates the continued efforts of SPPC in development of its DSM programs. As the DSM programs mature, the Commission expects SPPC to continue to modify the programs to improve cost and energy efficiency. Further, the Commission commends Staff for being watchful of demand side costs as well as other costs paid by ratepayers.

197. The Commission has reviewed SPPC's objectives that it used to develop its DSM Plan and programs. These objectives are listed on page 15 of its DSM plan. SPPC identifies, "Place Sierra in a position to acquire 25 percent of required portfolio energy credits through
demand side projects consistent with the requirements of NRS 704.7821(2)(b).” as its primary DSM planning objective. This objective does not seem to be consistent with SPPC’s needs as SPPC is already in compliance with the RPS and will be so for a considerable period into the future. In future DSM applications SPPC shall rearrange its objectives so that they are consistent with SPPC’s needs.

198. All of the parties recommended that the following Electric and Gas DSM programs be approved:

a) Sure Bet Commercial Incentives;
b) Home Energy Display;
c) Sure Bet New Construction;
d) High Efficiency Space Heater (Gas);
e) Water Heater Blankets (Gas);
f) Market and Technology Trials (Gas);
g) Gas Education (Gas)

These programs pass the TRC test. The Commission finds that these programs and their budgets as listed in SPPC’s application are approved.

199. As previously noted, Staff has recommended rejection of the appliance portion of SPPC’s proposed Energy Star Lighting and Appliance Program. Even though the appliance component of SPPC’s Energy Star Lighting and Appliance Program is a nationally recognized program that provides a message of energy conservation to customers, given Staff’s position and SPPC’s final position regarding the low rebate levels and concerns of a high level of freeridership in the Appliance component of the Energy Star program, SPPC is directed to develop modifications that address these concerns.

200. The Commission believes that it is important to continue to emphasize the lighting component of SPPC’s Energy Star program. SPPC is directed to allocate at least 85 percent of the Energy Star program budget to the lighting component and to review the appliance component for cost effectiveness in its next Annual DSM Update Report. Further, SPPC shall
submit the results of its evaluation of program modifications in its Annual DSM Update Report which it will file in 2008. SPPC shall, in future DSM applications, list separately the budgets and performance results for the Energy Star Lighting and Energy Star Appliance programs. The Commission is approving this program and its Action Plan budget as modified by this order.

201. All parties supported approval of the Second Refrigerator Recycling Program. However, Staff’s recommendation for approval is conditional. The Commission approves the Second Refrigerator Recycling Program and its Action Plan budget as proposed by SPPC in its application to develop the program to analyze the performance and to determine cost effectiveness.

202. Staff recommended limited approval of the Sure Bet Hotel/Motel and Energy Education and Consultation programs for 2008, with funding for 2009 being subject to the results of the programs’ performance in 2008. The Commission does not expect to make a decision regarding the 2008 results until well into 2009 when it issues its order on SPPC’s Annual DSM Update Report. Furthermore, with regard to the Sure Bet Hotel/Motel program, this is a new program that SPPC will initiate and develop starting in 2008. Commission approval of these new programs in this docket is granted to give SPPC the opportunity to successfully develop these programs. Further, the Commission finds that the Energy Education and Consultation program and their Action Plan budgets as proposed by SPPC in its application should be approved and their cost effectiveness levels should be demonstrated in the next Annual DSM Update Report.

203. The Commission is convinced by SPPC’s rebuttal testimony that the Sure Bet Schools, 80 Plus and Energy Star Plug Load, Energy Star New Manufactured Homes and the Non-profit Agency Grants programs should be approved. In this case, the programs all pass the TRC test, but the TRC test is only a benchmark and should not be construed as a final goal. SPPC must continue its efforts to make these programs more cost effective. Regarding the Energy Star New Manufactured Homes program, SPPC is directed to proceed with the program and continue to seek ways to modify the program in order to be as far reaching as possible while
still remaining cost effective. Therefore, the Commission approves the Sure Bet Schools, 80
Plus and Energy Star Plug Load, Energy Star New Manufactured Homes and the Non-profit
Agency Grants programs and their Action Plan budgets as proposed by SPPC in its application.

204. As previously noted, Staff has recommended the Commission reject SPPC’s
proposed gas and electric Low Income Weatherization Programs. SPPC’s budget for its Low
Income programs is modest. In fact, it is approximately 8 percent of SPPC’s total DSM budget.
In addition, SPPC acknowledges the poor performance of these programs and must be committed
to improving their performance. The Commission notes that interested parties will have the
opportunity on an annual basis, in SPPC’s Annual DSM Update Report proceedings, to assess
SPPC’s progress in improving these programs and will have another opportunity to recommend
discontinuance of these programs if SPPC’s efforts are unsuccessful. The Commission notes that
there is a distinct difference between the goals of the Universal Energy Charge(“UEC”) and a
utility sponsored DSM program. The UEC is a social aid program, collected from all ratepayers
in their utility bills, with funds managed by the state’s Welfare Division and with programs
designed for low income customers. Utility sponsored DSM programs are designed so that all
rate payers contribute and all should benefit in the form of cost reductions due to energy and
capacity reduction. The Commission appreciates that there are other benefits which, as various
parties have indicated, inure to these programs and these benefits may be considered in
reviewing DSM programs, but they are not the primary benefits calculated in the TRC test
considered by the Commission for approval of DSM programs in this docket. Therefore, SPPC’s
request for approval of its Low Income Electric and Gas DSM Programs and the Action Plan
budget for these programs as proposed in SPPC’s application are approved.

205. With regard to SPPC’s request to increase the upper income limit of the Low
Income programs, the Commission believes that adoption of the this upper income limit may
improve the performance of the Low Income programs. Therefore, SPPC’s request to increase
the upper income limit for the Low Income programs is approved and the results of this
modification should be reported in the next Annual DSM Update Report.
206. SPPC has requested that the Commission find that it has complied with the compliance items enumerated in its Electric DSM Plan. Staff and the BCP provided recommendations addressing each of the compliance items. A summary of SPPC’s, Staff’s and the BCP’s recommendations regarding these compliance items is listed in the table below.

<table>
<thead>
<tr>
<th>Compliance Item</th>
<th>SPPC</th>
<th>Staff</th>
<th>BCP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. SPPC, Staff &amp; BCP should resolve any differences related to documentation of DSM programs;</td>
<td>Complied</td>
<td>Complied</td>
<td>Complied</td>
</tr>
<tr>
<td>2. SPPC should expand participation in the DSM Collaborative to include a wider base of constituencies;</td>
<td>Complied</td>
<td>Complied</td>
<td>maintain as Compliance</td>
</tr>
<tr>
<td>3. SPPC should complete a further evaluation of the Energy Star Lighting and Appliance Project;</td>
<td>Complied</td>
<td>Complied</td>
<td>Complied</td>
</tr>
<tr>
<td>4. Explore the feasibility and desirability of creating non-financial incentives for builder/developers utilizing energy efficiency measures;</td>
<td>Complied</td>
<td>has not complied</td>
<td>Complied</td>
</tr>
<tr>
<td>5. Quantify the impact of freeridership and incorporate these impacts in future filings;</td>
<td>Complied</td>
<td>has not complied</td>
<td>Complied</td>
</tr>
<tr>
<td>6. Utilize new savings estimates in future cost-effectiveness evaluations if appropriate;</td>
<td>Complied</td>
<td>Complied</td>
<td>Maintain as Compliance</td>
</tr>
<tr>
<td>7. Compliance related to Energy Education and Consultation - Customer Contact tracking and reporting;</td>
<td>Complied</td>
<td>Complied w/ conditions</td>
<td>Complied</td>
</tr>
<tr>
<td>8. Monitoring and Evaluation Plan for the Second Refrigerator Recycling - as part of its M&amp;V activities, SPPC will develop mechanisms to verify a number of assumptions related to energy savings for this project;</td>
<td>Complied</td>
<td>Complied</td>
<td>Complied</td>
</tr>
<tr>
<td>9. Conduct their own outreach, coordinate w/ Commission’s Consumer Division.</td>
<td>Complied</td>
<td>Complied</td>
<td>maintain as Compliance</td>
</tr>
</tbody>
</table>

207. After consideration of the position of the parties in this proceeding with respect to the compliance items listed above, the Commission finds that SPPC has substantially complied with the following compliance items: 1, 3, 4, 5, 6, 7, 8, 9. With regard to item 2, the Commission agrees with Staff and the BCP reasoning that this item should continue to be maintained as a compliance item and that the collaborative should be expanded to include business and ratepayer constituencies. With regard to item 6, the Commission believes that it is SPPC’s responsibility to use the best available estimates when developing its DSM plan. The Commission should not have to include a compliance item in an order to get this result. SPPC’s
request for approval of the compliance items listed in the table above is granted per the discussion in this paragraph.

208. SPPC requested approval of its proposal to allow deviations with budget categories of up to twenty percent of the Sure Bet Commercial Incentives, the lighting component of the Energy Star project, and the Second Refrigerator Recycling projects without seeking an amendment to the Action Plan. The programs for which SPPC is requesting the deviation all pass the TRC test and are some of SPPC’s most cost effective programs. Therefore, the Commission believes that it is appropriate in this case to grant SPPC’s request.

209. The Commission finds that SPPC has already invested a considerable amount of time and effort in evaluating freeridership. Even though freeridership is a critical evaluative estimate, spending an additional $1 million to refine estimates does not seem practical. It further finds the BCP’s recommendation in this regard to be reasonable. Therefore, the Commission approves SPPC’s request to not invest $1.9 million in primary research on freeridership. SPPC shall use its current freeridership values as a lower bound, but shall continue to monitor this impact measure of freeridership.

210. The Commission, in part, agrees with NCARE’s position and reasoning that it is not appropriate to limit savings targets to the first three years of the 20-year planning period. In fact, the Commission would like to see DSM programs become more “integrated” into the integrated resource planning process as suggested by Mr. Mendelsohn. Unfortunately, the record does not provide much assistance with how to accomplish this process. Therefore, the Commission directs SPPC, with the assistance of the DSM collaborative, to investigate this issue and include a summary of its investigation regarding how it can integrate the energy and capacity from a DSM program into the integrated resource planning process in its Annual DSM Update report that it will file in 2008.

211. The Commission has considered NCARE’s recommendation that it establish an energy savings target for SPPC’s DSM programs. In this proceeding the Commission is approving cost effective DSM programs and is not placing any limit on energy conservation or
demand side measures. SPPC has not been directed by the Commission to limit its DSM budget to a specified spending level. The Commission believes that SPPC’s DSM program development effort is still a work in progress. In fact, SPPC’s DSM budget has increased significantly in the last few years. In addition, if DSM programs are to truly be integrated into the resource planning process then setting a target may hinder that process. Therefore, the Commission does not find it reasonable to set an energy savings target at this time.

212. The Commission has considered NCARE’s recommendations regarding DSM programs that were studied but not included in SPPC’s IRP. While the Commission believes many of Dr. Geller’s recommendations have merit and, therefore, would urge SPPC to give serious consideration to these recommendations, nonetheless the Commission declines to require SPPC to do so as part of the instant Order.

F. Financial Plan Issues

213. SPPC requested the Commission approve its proposed Financial Plan. The Commission finds that it is not the appropriate time to consider approval of SPPC’s Financial Plan in this docket as it is a placeholder plan that does not contain current cost estimates or finalized assumptions. Therefore, the Commission denies SPPC’s request for approval of its Financial Plan.

214. With regard to Staff’s recommendation that SPPC include in a future amendment involving the EEC “an exact specification of the ownership division of the EEC between SPPC and its Nevada Power Company (“NPC”) operating affiliate, supported by an explicit analysis demonstrating why the proposed division is economically efficient, fair and in the public interest,” the Commission finds that this recommendation is consistent with, but more specific than, the requirement included in the Commission January 30, 2007, order in Docket 06-06051 at paragraph 172, item c). Therefore, SPPC shall be required to include the requirements of this recommendation in any future EEC Amendment.

215. With regard to Staff’s recommendation that SPPC include in a future amendment involving the EEC “separate dispatch modeling and production-cost and related analyses for
SPPC and NPC, not the combined-utility modeling and analysis SPPC presented in this docket,” this recommendation is also consistent with the Commission’s requirement included in its January 30, 2007, order in Docket 06-06051 at paragraph 172, item d). However, the Commission believes that it will be necessary for SPPC to complete both separate and joint dispatch modeling in order to demonstrate the benefits of joint dispatch of SPPC’s and NPC’s systems. Therefore, Staff’s recommendation is denied in part. SPPC shall include in its EEC Amendment separate dispatch modeling as indicated in Staff’s recommendation and shall also complete joint modeling as the Commission believes it is necessary to perform this task in order to demonstrate the benefits of joint dispatch of the two systems.

216. With regard to Staff’s recommendation that: “SPPC provide separate and concurrent analyses of the two ratemaking incentives sought by SPPC to support the EEC - namely, increased allowed rates of return on equity and a current cash return on CWIP – “including annual figures in each scenario for revenue requirements, average system rates, rate base and all relevant financial metrics,” this recommendation is not consistent with the requirements of the Commission’s January 30, 2007, Order in Docket 06-06051 at paragraph 172. However, the Commission finds that Staff’s recommendation is worthwhile and that it will aid the Commission in understanding the impact to ratepayers as well as the impact of the incentives on SPPC’s ability to finance its Preferred Plan. Therefore, the Commission orders SPPC to include in its EEC Amendment Staff’s recommended improvement as described.

G. Long Term Avoided Cost Issues

217. The Commission finds that Staff’s approach for addressing the LTAC issue in this proceeding is practical. Therefore, SPPC shall resubmit its IRP LTAC filing requirements with the EEC Amendment. SPPC shall submit these requirements by July 1, 2008 if the EEC Amendment has not been filed by that time.

218. With regard to NCARE’s position on LTAC, the record does not reflect any quantifiable cost component for LTAC that can be attributed to avoided transmission and distribution costs resulting from DSM programs. It is difficult for the Commission to address
this issue without such evidence. Therefore, the Commission makes no finding regarding this issue in this docket.

**H. Confidential Information**

219. SPPC has requested approval for protection of the confidential information that it has filed under seal. NCARE believes that SPPC has applied confidential protection to too wide of an array of information related to its IRP filing and by doing so has greatly inhibited the public’s ability to evaluate the IRP filing. In rebuttal, SPPC maintains that the information filed under seal is commercially sensitive and its public disclosure would negatively impact its customers. It further indicated that NCARE was informed of the process it could use to view confidential information and was given the opportunity to do so. NCARE did not take advantage of that opportunity.

220. The Commission has a process in place for addressing the confidential status of documents deemed to be confidential. This process was and is also available to NCARE. No party challenged the confidential status of the information that SPPC filed under seal with the Commission. NCARE waived any arguments it may have had regarding over-declaration of confidentiality. Therefore, SPPC’s request in this regard is granted.

**I. Dr. Otsuka’s Recommendations**

221. With regard to Dr. Otsuka’s first and second recommendations, the Commission is convinced by SPPC’s rebuttal testimony that approval of these recommendations is not warranted. Therefore, the Commission denies approval of these recommendations.

222. Dr. Otsuka recommended that SPPC include options with larger shares of renewable energy resources than what is required in the Portfolio Standard when considering resource alternatives. The Commission acknowledges SPPC’s position that, in developing its IRP, renewable resources were projected to cost more than conventional resources and since SPPC already has under contract renewable energy sources for the RPS through 2024, SPPC did not consider options with greater amounts of renewable capacity and energy. However, the resource planning environment is continually changing and conditions such as the escalating cost
of conventional resources or environmental requirements that increase operating cost of one resource over another may at some point in time justify consideration of options such as the one proposed by Staff.

223. Dr. Otsuka’s additionally recommended that SPPC evaluate supply options using PWRR and the PWSC, on a SPPC specific basis in addition to a total company basis. SPPC disagreed with this recommendation. In another section of this order the Commission has ordered SPPC to complete its joint dispatch analysis required by the January 30, 2007, Order in Docket 06-06050 and 060-7010 by considering joint and separate dispatch of SPPC’s and NPC’s electric systems. Dr. Otsuka’s recommendation is in line with this requirement and the Commission believes it is appropriate for SPPC to provide this data. Therefore, the recommendation is approved with respect to SPPC specific details to be evaluated by these calculations.

224. Dr. Otsuka recommended that SPPC provide a thirty-year analysis of environmental costs in future resource plan filings. SPPC is not opposed to providing such an analysis. The Commission believes that such an analysis would be useful for comparing resource plan alternatives and provides additional information that would help the Commission to reach a fully informed decision. However, the current resource planning regulations contemplate a 20 year planning period. While no regulation prevents SPPC from filing financial plan analysis for periods exceeding the 20 year period contemplated by regulation, the Commission declines to order SPPC to file a 30 year PWSC analysis.

225. Many of the witnesses in this proceeding were asked to give their opinion regarding the merits of using a 20-year or 30-year period in the resource planning process. NCARE witness, Dr. Hausman indicated that based upon his experience that a 30-year planning period is fairly standard. Tr. at 679, 680. SPPC included 30-year PWRR analyses of the resource expansion plans that it considered in this docket. The Commission believes that such an analysis would be useful for comparing resource plan alternatives and provides additional information that would help the Commission to reach a fully informed decision.
226. Dr. Otsuka recommended the Commission order SPPC to again provide an analysis of sensitivity for major assumptions regarding environmental costs, especially allowance prices of CO₂. See Exhibit 75. The Commission believes that Dr. Otsuka’s recommendation makes sense. SPPC has an obligation to its ratepayers and shareholders to consider factors that may have a major impact on the operating cost of existing and proposed resources. Therefore, the Commission is approving this recommendation.

J. Dr. Hausman’s Recommendations

227. Dr. Hausman’s recommendations concerning the costs associated with CO₂ emissions and the cost of new coal power plants include a recommendation that the Commission require SPPC to withdraw its plan and create a new plan in which a comprehensive range of alternative resources and realistic resource costs are considered. This recommendation is inconsistent with the Commission’s January 30, 2007, Order in Docket Nos. 06-06051 and 06-07010, accepting the companies’ Preferred Plan, and the Commission’s August 27, 2007 Order in this docket which require SPPC to address many of the concerns raised by Dr. Hausman. Therefore, this recommendation is denied.

228. A number of Dr. Hausman’s recommendations were intended to apply to a re-filed plan. While the Commission is rejecting his recommendation that in this Order the Commission order SPPC to re-file its plan, the Commission believes that two of Dr. Hausman’s recommendations warrant further Commission discussion.

229. Dr. Hausman recommended that the Commission require SPPC to model CO₂ costs as an up-front variable operating cost on all CO₂ emitting resources on its system, so that these costs realistically influence the relative costs of operating these resources and thus properly inform resource development decisions. SPPC indicated in rebuttal that Dr. Hausman’s recommendation is inconsistent with the resource planning regulations and that it modeled emission costs in accordance with these regulations. The Commission believes that Dr. Hausman’s proposed method for modeling CO₂ costs may eventually be the appropriate method for assessing the impact of carbon regulation. At this point the Commission has accepted Staff’s
recommendation regarding sensitivities on CO₂ cost. Therefore, the Commission is not ordering SPPC to provide the analysis recommended by Dr. Hausman.

230. With regard to Dr. Hausman’s recommendation that an independent engineering firm be retained to review cost estimates of a proposed coal fired resource and to provide an opinion in an affidavit on whether they are reasonable and consistent with current and expected market conditions including recent and expected trends in the costs of materials, labor, and technology, the Commission believes that this recommendation has merit. Obtaining the opinion of an independent qualified engineering consultant regarding the construction cost of coal fired resource will substantially assist the Commission in alleviating any concerns regarding the accuracy of construction costs for a coal fired resource. Therefore, the Commission orders SPPC once it has completed its own estimates, to retain the services of an independent qualified engineering consultant to examine the reasonableness of the construction cost estimates for the EEC Phase 1. Staff, in meaningful collaboration with the BCP, shall work with SPPC to develop a scope of work and select a qualified independent consultant. The scope of work shall generally consist of determining whether SPPC’s cost estimates of the EEC Phase 1 are reasonable and consistent with current and expected market conditions including recent and expected trends in the costs of materials, labor, and technology. Staff shall notify the Commission immediately if it has any concerns regarding the fairness of the process for selecting and administering the contract with the independent qualified engineering consultant. The selected consultant shall submit a report in the EEC Amendment stating an opinion regarding the reasonableness of the EEC construction cost estimates and also the consultant shall be made available as a witness for cross examination regarding the contents of the report. All costs associated with the retention of an independent consultant shall be borne by SPPC and shall be presumed a prudent and reasonable expenditure subject to review in a general rate case proceeding.

K. Mr. Mendelsohn’s Recommendations

231. The Commission has reviewed Mr. Mendelsohn’s recommendations with regard to SPPC’s Resource Plan filing, and for the same reasons listed for denial of Dr. Hausman’s
recommendation that the Commission require SPPC to withdraw its filing, denies approval of Mr. Mendelsohn’s recommendations. Other recommendations made by Mr. Mendelsohn are addressed in other sections of this order.

M. Other

232. SPPC requested that the Commission find in accordance with NRS 704.746(3) that its 2007 Resource Plan adequately demonstrates the economic, environmental and other benefits to the State of Nevada and SPPC’s customers associated with improvements in energy efficiency, pooling of power, purchases of power from neighboring states, renewable energy generation, co-generation, hydro-generation, and other generating resources. The Commission has reviewed SPPC’s filing and finds that it has met the requirements of NRS 704.746(3).

233. All arguments of the parties raised in these proceedings, including but not limited to arguments raised in the hearing, not expressly discussed herein have been considered and either rejected or found to be non-essential for further support of this Order.

THEREFORE, based on the foregoing findings and conclusions, it is ORDERED that:

1. Sierra Pacific Power Company’s electric load and sales forecasts are APPROVED.

2. Sierra Pacific Power Company’s fuel and energy market forecasts are APPROVED.

3. Sierra Pacific Power Company’s request for approval of a revised budget for the King’s Beach Diesel Replacement Project is APPROVED. Action Plan approval of the budget for this project is $16.5 million.

4. Sierra Pacific Power Company’s request to expend $100,000 during the Action Plan period to continue to operate the meteorological station at Valmy Station in aid of future expansion is APPROVED.

5. Sierra Pacific Power Company’s requests for approval of the Bordertown Transmission Capacity Project, the Emma Transmission Capacity Project, the 345 kV Voltage
Support Project, the expenses for the EEI Spare Transformer Program, and the Expenses for the membership in WestConnect are APPROVED.

6. Sierra Pacific Power Company’s request for approval of the Ft. Sage Transmission Capacity project as proposed is DENIED. The Commission, however, is granting APPROVAL to Sierra Pacific Power Company to construct the Plumas 120 kV Interconnection and to investigate only the feasibility of permitting the Ft. Sage Transmission Capacity Project. The budget during the Action Plan Period for these expenditures is limited to $17 million.

7. The Fallon Transmission Capacity Project is APPROVED. Commission approval of Action Plan expenditures for this project is limited to $3 million.

8. Sierra Pacific Power Company’s request for approval for expenditures related to Routing Studies are APPROVED for the Emma - Ft. Churchill routing study at a cost of $165,000 and the Falcon – Humboldt routing study at a cost of $280,500. All other proposed Routing Studies are DENIED.

9. The Commission APPROVES the Related Purchase Power Agreements and their terms and conditions in their entirety.

10. Amendment No. 1 to the Long-term Agreement for the Purchase and Sale of Electricity Between Sierra Pacific Power Company and Steamboat Hills, LLC, dated May 31, 2007, is APPROVED.

11. Sierra Pacific Power Company’s request to expend $11,190,500 during the Action Plan period for the SolarGenerations Program is APPROVED.

12. The Demand Side Management programs proposed by Sierra Pacific Power Company are APPROVED as set forth in this Order.

13. Sierra Pacific Power Company’s request that the Commission find that it has complied with the compliance items enumerated in its Electric DSM Plan is GRANTED as outlined in paragraph 223. However, Sierra Pacific Power Company SHALL continue to expand its participation in the DSM Collaborative to include a wider base of constituencies.
14. Sierra Pacific Power Company’s request to allow deviations of up to twenty percent of the approved budgets for the Sure Bet Commercial Incentives, the lighting component of the Energy Star project, and the Second Refrigerator Recycling projects without seeking an amendment to the Action Plan is APPROVED.

15. Sierra Pacific Power Company SHALL, with the assistance of the DSM collaborative, investigate and include a summary of its investigation regarding how it can integrate the energy and capacity from a DSM program into the integrated resource planning process in its Annual DSM Update report that it will file in 2008.

16. Sierra Pacific Power Company’s request for approval of its Financial Plan is DENIED.

17. Sierra Pacific Power Company SHALL resubmit its Integrated Resource Plan Long Term Avoided Costs filing requirements with the EEC Amendment. Sierra Pacific Power Company shall submit these requirements by July 1, 2008 if the EEC Amendment has not been filed by that time.

18. Sierra Pacific Power Company’s request for protection of the confidential information filed under seal is GRANTED.

19. Staff’s recommendation that Sierra Pacific Power Company evaluate supply options using PWRR and PWSC on a SPPC specific basis is APPROVED.

20. Sierra Pacific Power Company SHALL provide, in future resource plan filings, a sensitivity analysis for major assumptions regarding environmental costs, especially allowance prices of CO2.

21. Sierra Pacific Power Company SHALL retain the services of an independent qualified engineering consultant to examine the reasonableness of the construction cost estimates for the EEC Phase 1. Staff, in meaningful collaboration with the BCP, SHALL work with SPPC to develop a scope of work and select a qualified independent consultant.

22. Pursuant to NRS 704.746(3) Sierra Pacific Power Company’s 2007 Resource Plan adequately demonstrates the economic, environmental and other benefits to the State of Nevada
and Sierra Pacific Power Company's customers associated with improvements in energy efficiency, pooling of power, purchases of power from neighboring states, renewable energy generation, co-generation, hydro-generation, and other generating resources.

23. The Commission retains jurisdiction for the purpose of correcting any errors that may have occurred in the drafting or issuance of this Order.

By the Commission,

[Signature]

JO/ANN P. KELLY
Chairman

[Signature]

REBECCA D. WAGNER
Commissioner

[Signature]

SAM A. THOMPSON
Commissioner and Presiding Officer

Attest:  Crystal Jackson
CRystal JACKSON, Commission Secretary

Dated: Carson City, Nevada

[Signature]

12-24-07 (SEAL)