



Control Number: 30611



Item Number: 161

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**Paul Hudson**  
Chairman

**Julie Caruthers Parsley**  
Commissioner

**Barry T. Smitherman**  
Commissioner

**W. Lane Lanford**  
Executive Director



## *Public Utility Commission of Texas*

December 16, 2005

VIA FACSIMILE (432/684-0334)

John W. Rainey  
Chief Compliance Officer  
Cap Rock Energy Corporation  
500 West Walls, Suite 400  
Midland, Texas 79701-1601

Re: Project No. 30611 - 2005 Electric Utilities Fuel Cost and Use  
~~Project No. 29163 - 2004 Electric Utilities Fuel Cost and Use~~  
~~Project No. 27355 - 2003 Electric Utilities Fuel Cost and Use~~

Filings by Cap Rock Energy Corporation

Dear Mr. Rainey:

On December 1, 2005, Cap Rock filed monthly reports for September, 2003 through November, 2005 regarding costs recovered through its Power Cost Recovery Factor (PCRF) during that time period. On November 29, 2005, you and Lambeth Townsend met with Staff to discuss how these reports were prepared.

It is my understanding that the PCRF reports were recently prepared by you and reflect certain adjustments that Cap Rock believes it is appropriate to make in light of the Commission's order in Docket No. 28813. These include adjustments to reflect the one-time change in accounting basis as well as the removal of miscellaneous expenses which the Commission concluded were not appropriate for inclusion in the PCRF (i.e., the Vision Energy and McGregor expenses). Furthermore, you made an adjustment to reflect that a credit was given to customers starting in November 2004 to refund the double-recovered PCRF amount discussed during the rate case.

In order to have the Commission's records reflect the basis of Cap Rock's adjustments, I am filing a copy of the explanatory letter that accompanied a copy of Cap Rock's PCRF reports which was personally delivered to me. It did not appear from our review in Central Records that a copy of the letter had been filed in the above-referenced projects.

RECEIVED  
2005 DEC 16 PM 4:43  
PUBLIC UTILITIES COMMISSION

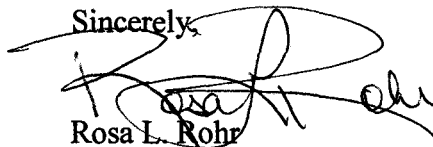
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John W. Rainey  
December 16, 2005  
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I am writing to ask that you provide any and all documents that were prepared or relied upon contemporaneously when Cap Rock was calculating the amount to be charged each month. It is my understanding that Celia Zinn prepared a PCRFB "report" each month that forms the basis of the "actual billed PCRFB" amount reflected on line 8 of each of Cap Rock's of recently-filed adjusted PCRFB monthly reports which reflect your adjustments.<sup>1</sup> I would like a copy of each month's "report" as prepared by Ms. Zinn as well as any supporting documentation, including but not limited to, New Corp's invoices/billing statements to Cap Rock. These items should be provided in addition to the copies of Cap Rock's general ledger which you indicated would be provided to Staff during our November 29, 2005, meeting.

Please provide these items by January 2, 2006.

Sincerely,



Rosa L. Rohr

Attorney - Legal Division, Electric Section

Attachment

cc: Central Records  
Lambeth Townsend (via facsimile)

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<sup>1</sup> I do not believe that Ms. Zinn prepared the PCRFB "report" in the format required under the Commission's rule but you indicated at our meeting that she did prepare some type of document each month during the period in question where she calculated the PCRFB to be passed to Cap Rock's customers.



RR

RECEIVED  
2005 DEC -2 PM 3:00  
LEGAL DIVISION

December 1, 2005

Rosa L. Rohr  
Attorney – Legal Division, Electric Section  
Public Utility Commission of Texas  
P.O. Box 13326  
Austin, TX 78711

Re: Project No. 30611-2005 Electric Utilities Fuel Cost and Use  
Project No. 29163-2004 Electric Utilities Fuel Cost and Use  
Project No. 27355-2003 Electric Utilities Fuel Cost and Use

Dear Ms. Rohr:

I am writing in response to your November 17, 2005, letter to William West, President, Cap Rock Energy Corporation (“Cap Rock”), about the filing of monthly reports for Cap Rock’s Power Cost Recovery Factor (“PCRF”). As requested, Cap Rock has filed PCRF reports for each month for the period September 2003-November 2005 in the appropriate project listed above. Enclosed for your convenience are copies of the PCRF reports that Cap Rock has filed.

As set forth in the relevant PCRF filings, Cap Rock’s historical PCRF calculations (i.e., Sep 2003 – Nov 2005) have been recalculated based upon the final order issued in Docket No. 28813 and changes required by the rules. Specifically, they reflect the following changes: (1) the beginning PCRF balance has been corrected per Docket No. 28813; (2) historical power costs and PCRF calculations have been adjusted to reflect actual power costs and sales revenue and to exclude all miscellaneous expenses that were included in the historical costs; and (3) the inadvertent over-collection of \$4.36 million discovered during the rate case, as well as the subsequent refund by the Company of the full amount, has been shown as a discrete line item (Line 15 on the West Texas-Hunt/Collin reports) with an explanatory footnote on the historical PCRF reports for the relevant time periods and divisions.

The over-collection only affected the West Texas and Hunt/Collin Divisions. The McCulloch Division customers had a unique PCRF calculation as part of the Combination Agreement which was not impacted by the WP tariff true-up issues. While I have made adjustments to the power costs to remove any miscellaneous expenses, consistent with Docket No. 28813, there is no impact of the booking error for the customers in the McCulloch



Division. Therefore, the return of the over-collection is only included on the PCRf reports for the West Texas-Hunt/Collin Divisions.

Recognizing the above adjustments in the appropriate monthly PCRf schedules yields a different PCRf than was originally calculated. Accordingly, the PCRf calculated recognizing these adjustments and included on the recalculated schedules is different than that actually billed. In an effort to add some clarity to this issue, Line 8 was added in the A. section of the schedule to show the PCRf actually billed as well as the PCRf that is now calculated based upon the adjusted balance and expenses (as seen on Line 7 for the West Texas-Hunt/Collin reports).

With respect to the \$4.36 million over-collection, it is important to note two different time periods. The first is the over-collection period, which was the 24 month period ending December 2003. It was during this period that Cap Rock amortized on a monthly basis the impact of a true-up adjustment under the old NewCorp WP Tariff (i.e., \$181,824.72 per month for 24 months, or \$4.36 million in total), while at the same time including the impact of the one-time adjustment in the PCRf monthly balances.<sup>1</sup> Accordingly, the PCRf reports for September 2003 – February 2004 (which includes actual PCRf calculations through December 2003 due to the two-month lag) include “Prior Period True-up” adjustments of \$181,824.72 (Line 15 on the West Texas-Hunt/Collin reports), as well as the impact of this one-time adjustment in the PCRf monthly balances. The inclusion of this one-time adjustment into the PCRf balance resulted in the inadvertent monthly over-collections.

The second important time period regarding the \$4.36 million over-collection is from November 2004 – December 2005, which represents the 14 month period over which the Company has refunded or will refund the full \$4.36 million to its customers. Specifically, after the hearing was held in October 2004 in Docket No. 28813, Cap Rock began refunding to its customers in November 2004 the over-collection at a rate of \$311,699.52 per month (\$4.36 million/14 months). The actual monthly refunds to customers and an explanatory footnote with a running balance can be seen on the Company’s PCRf reports (Line 15 on the West Texas-Hunt/Collin reports) for November 2004 – November 2005. As set forth in the November 2005 report, the over-collection will be zero at the end of December, as Cap Rock will have returned to customers the entire \$4.36 million over-collection.

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<sup>1</sup> In regard to the WP true-ups, Cap Rock recorded the entire amount of the bills at the time the bills were received as an adjustment to the outstanding PCRf balance. As the PCRf was calculated each subsequent month, Cap Rock also amortized the impact of these true-ups over a 24 month basis. The intention was to charge the customers the cost of these true-ups over a 24 month period instead of all at once. Due to the fact that the entire cost was booked in the PCRf balance when received, for PCRf calculation purposes, there should have been a corresponding entry included to adjust the impact out of the balance, which was inadvertently not made. In this manner, the customers would have been charged ratably over a 24 month period. Cap Rock became aware of this missing adjustment to the balance during the rate proceeding. The result of not recognizing the adjustment to the PCRf balance was that the costs related to the true-ups was included twice in calculating the monthly PCRf.



I hope you find this explanation helpful, and should you have any questions, please feel free to contact me at (423) 684-0305.

Yours truly,

A handwritten signature in black ink that reads "John W. Rainey".

John W. Rainey  
Chief Compliance Officer  
Cap Rock Energy Corporation