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Decision 83 04 066 April 20, 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Sierra Pacific Power Company for general rate relief and for authority to increase its electric rates and charges for electric service and to impose certain tariff revisions.	Application 82-08-43 (Filed August 19, 1982)

Thomas R. Sheets, Attorney at Law (Ohio), James D. Salo, Attorney at Law (Nevada), and Graham & James, by Boris Lakusta, for Sierra Pacific Power Company, applicant.

Brobeck, Phleger & Harrison, by William H. Booth and Richard C. Harper, Attorneys at Law, for Sierra Ski Area Association, interested party.

James S. Rood and William N. Foley, Attorneys at Law, for the Commission staff.

O P I N I O N

This is an application by Sierra Pacific Power Company (Sierra Pacific) which seeks authority to increase its electric rates. As filed, the application requested a 56.4% increase amounting to approximately $8 million for test year 1983. As a result of stipulations entered into during the course of the hearing, Sierra Pacific's request was reduced to approximately $6.3 million, an increase of 44.8%.

Summary of Decision

Sierra Pacific seeks a general increase in electric rates. The application as filed sought an increase in revenues of $8 million for test year 1983. Sierra Pacific modified its request to $6.3 million. It seeks a return on rate base of 13.55% and a return on common equity of 18%.

This decision grants Sierra Pacific a 36.0% increase in base rates to yield additional revenues of $5,010,000, a return on rate base of 12.57%, and a return on common equity of 16.00%.

A duly noticed public hearing was held in this matter before Administrative Law Judge Donald B. Jarvis. Public witness testimony was received at an evening hearing at South Lake Tahoe on October 13, 1982 and at a daytime hearing at Tahoe City on October 14, 1982. Additional hearings were held in San Francisco on October 18, 19, and 20, 1982. The proceeding was submitted subject to a late-filed exhibit, transcript, and briefs which were received by November 19, 1982.

The Commission takes official notice that on December 1, 1982, Sierra Pacific filed Application (A.) 82-12-01 seeking authority to revise its Energy Cost Adjustment Clause (ECAC) Balancing Factors. None of the matters involved in the ECAC proceeding will be considered in this decision. However, the rate schedule authorized in this proceeding will include the rates provided for in today's decision in A.82-12-01.

Position of Sierra Pacific

Sierra Pacific contends that it should be allowed to earn revenues sufficient for it to earn a rate of return of 18% on common equity and 13.55% on rate base. Sierra Pacific also seeks an attrition allowance for 1984.

Position of the Commission Staff (staff)

The staff recommends that Sierra Pacific be allowed a return on equity of 16.25% to 16.75% which would result in a return on rate base of 12.67% to 13.01%. The staff differs with Sierra Pacific over the magnitude of the attrition allowance. The staff also contends that 27 of 60 acres of land purchased by Sierra Pacific in 1980 be excluded from rate base.

Position of Sierra Pacific Customers

Nine members of the public made sworn statements at the hearing at South Lake Tahoe, and ten members of the public gave sworn statements at the Tahoe City hearing.

The controller of the City of Loyalton (City) testified that the City was opposed to any increase because it lacked the capability to raise the funds to pay for it. She stated the unemployment rate in Sierra County was 29.8% and that many persons on fixed income, mainly Social Security, lived in the City. The controller asserted that these persons were in no position to pay a higher tax rate to cover an increase in utility bills.

The general manager of the North Tahoe Public Utility District testified that the district opposed the increase because the higher rates for electricity to run its pumps would have to be passed on to its water and sewer customers.

The owner of a motel stated that any increase should be deferred until there was an upturn in the economy. He asserted that many businesses in the area were on the verge of insolvency and an increase in rates could result in their demise.

Other witnesses testified, generally, about the economic hardship caused by increased rates. Some witnesses testified that they could not understand why their bills continued to increase in spite of their conservation efforts and use of less electricity. Various persons testified that they were dependent on Social Security or otherwise living on limited incomes and could not cope with increased costs of living, including higher electric rates. They opposed the requested increase.

Position of Sierra Ski Area Association (Association)

Association appeared in the proceeding to oppose a Sierra Pacific proposal to change the times for the winter on-peak period or its time of use (TOU) schedule. Association also sought modifications in tariff provisions dealing with demand ratchets, minimum bills, class revenue requirements, and an expansion of the TOU provisions.

During the course of the hearing the staff took positions on each of these matters. Association agreeed with these positions and limited its participation. Association urges adoption of the staff positions.

Material Issues

The material issues presented in this proceeding are:

1. Is Sierra Pacific entitled to an increase in rates?
2. If Sierra Pacific is entitled to a rate increase, what is the appropriate amount?
3. What is the appropriate rate design for any increase which may be granted?
4. Should the Commission exclude from rate base 27 of 60 acres of land purchased by Sierra Pacific in 1980?

Earnings at Present Rates

Sierra Pacific contends that its earnings at present rates are not sufficient and it is entitled to an increase in rates.

The following table sets forth a summary of earnings for the test year 1983, as estimated by the staff, at present rates:

TABLE 1
SIERRA PACIFIC POWER COMPANY
Summary of Earnings
Year 1983 Estimated at Present Rates

Item	Staff	Utility	Util. Exceeds Staff Amount	Util. Exceeds Staff PCT
	(Thousands of Dollars)			
Operating Revenues				
Revenue from sales	$14,067	$14,184	$ 117	.8
Total Oper. Rev.	14,067	14,184	117	.8
Operating Expenses				
Production	788	962	174	22.1
Transmission	114	114	0	.0
Distribution	1,113	1,121	8	.7
Customer Accounts	780	1,182	402	51.5
Customer Service & Info.	324	337	13	4.0
Admin. & General	1,729	1,856	127	7.3
Subtotal	4,848	5,572	724	14.9
Wage Adj.	(85)	0	85	(100 0)
Nonlabor Adj.	(44)	0	44	(100.0)
Allocation Adj.	(41)	0	41	(100.0)
Subtotal After Wage Adj.	4,678	5,572	894	19.1
Depreciation & Amortization	2,440	2,484	44	1.8
Taxes Other Than On Income	683	1,051	368	53.9
State Corp. Franchise Tax	233	220	(13)	(5.6)
Federal Income Tax	1,362	663	(699)	(51.3)
Total Oper. Exp.	9,396	9,990	594	6.3
Net Oper. Rev. Adjusted	4,671	4,194	(477)	(10.2)
Rate Base	54,578	60,233	5,654	10.4
Rate of Return	8.56%	6.96%	(1.60%)	

(Red Figure)

With the exception of rate base, Sierra Pacific stipulated that the staff figures in Table 1 are correct. Sierra Pacific's estimated rate of return on rate base after adjustment hereafter made for the test year is 8.25%.

Results of Operations

A. Production Expenses

Production expenses include all costs, labor and nonlabor, of operating and maintaining power generation facilities with the exception of costs associated with ECAC-related fuel and purchased power. The staff estimate, to which Sierra Pacific has agreed, is $749,000.

B. Transmission Expenses

Transmission expenses include all expenses for activities relating to the operation and maintenance of transmission lines, inspection, and testing of switching equipment and substations. The staff estimate differed from Sierra Pacific's in the areas of escalation and jurisdictional allocation. The staff estimate, to which Sierra Pacific stipulated, is $109,000.

C. Distribution Expenses

Distribution expenses include activities such as switching, adjusting, inspecting, testing, investigating complaints, security, replacing components, and maintaining the distribution system. The staff estimate, to which Sierra Pacific stipulated, is $1,080,000.

D. Customer Accounts Expenses

Customer accounts expenses relate to billing and collections. They include sending, receiving and handling of mail, handling orders for service, bookkeeping, disconnections of service for nonpayment of bills, and handling inquiries and complaints. The staff estimate, at present rates to which Sierra Pacific has agreed, is $759,000. This amount will be adjusted for authorized rates.

E. Customer Service and Information

1. Conservation-Related Expenses

The staff analyzed Sierra Pacific's proposed conservation programs for the test year. The staff concluded that the programs are: (1) cost-effective for the participants, (2) similar to those of other utilities which have been shown to be cost-effective for their entire customer bases, (3) in aggregate, relatively inexpensive per customer, and (4) adequately managed.

A brief description of the conservation programs follows:

a. Residential Conservation Service (RCS)

This program is mandated by the National Energy Conservation Policy Act and administered in California by the California Energy Commission. RCS is the key program for reaching individual customers. Sierra Pacific implemented it in 1981. It replaces or modifies other programs from which it evolved. For example, free installations of a water heater insulation jacket and a low-flow showerhead are now offered as an incentive for an RCS audit rather than as an incentive for attic insulation.

The main feature of the RCS program (and of the Home Energy Analysis program which it replaces) is a home audit. The audit informs the customer of specific conservation measures and the cost-effectiveness of each. The customer is also informed of certain conservation implementation programs for which he is eligible.

Sierra Pacific's RCS program is funded through the utility's Conservation Financing Adjustment (CFA) tariff, which was authorized by D.82-07-096 (dated July 21, 1982 in A.60587, et al.) as modified by D.82-10-048 (dated October 20, 1982). No base rate revenue is necessary for the program.

b. Tahoe Weatherization Center

This program supports the RCS program by soliciting RCS audits within the Lake Tahoe Basin and assigning the audit to the utility (Sierra Pacific, CP National, or Southwest Gas) which provides the space heating energy to the customer requesting the audit. This joint venture is desirable to avoid redundancy and confusion which could easily prevail with three utilities serving overlapping parts of the Tahoe Basin.

c. Water Heater Insulation/Low-Flow Showerhead

Free installations of water heater insulation jackets and low-flow showerheads formerly were offered as an incentive for customers to reinsulate their attics to R-38. Currently, the free installations are offered as an incentive to request an RCS audit. In 1982, Sierra Pacific implemented a five-year program to install water heater insulation jackets and low-flow showerheads for each of its customers without charge. Customers who previously installed those devices at their own expense will be reimbursed.

d. Conservation Hardware

Various inexpensive cost-effective conservation products are offered at cost to residential customers. For example, two successful offerings are water heater insulation blankets and low-flow showerheads. The popularity of those two devices led to their use as incentives for other programs. Because of their proven effectiveness, Sierra Pacific has established a five-year program to install them free of charge for each of its customers. Additional products will be offered as they become available.

e. Eight Percent Financing

This program was offered in 1980 and 1981 as an incentive for customers to participate in Sierra Pacific's Retrofit Weatherization Program. In 1980 the program provided for the insulation of attics to R-38. In 1981 the program was expanded to include 8% financing for weatherstripping and caulking, low-flow showerheads, water heater insulation blankets, and furnace duct insulation.

The Retrofit Weatherization Program, which in conjunction with RCS and other programs identifies customers in need of additional weatherization and assists them in getting it, has been incorporated into the 8% financing plan. The financing program is also funded through the CFA tariff, and so requires no base rate revenues.

f. Do-It-Yourself Insulation

In an effort to capture more of the potential energy savings from insulation, Sierra Pacific is making insulation available at cost and providing blowing machines to customers willing to install their own insulation. A pilot program designed for intense coverage of a small geographical area (Portola/Loyalton) was conducted during a two-day period in late 1982. The program will be offered throughout the remainder of the service area during 1983 and 1984. The pilot program is patterned after a successful one carried out by Sierra Pacific in 1979.

g. Commercial

Sierra Pacific has undertaken a comprehensive study designed to identify potential energy savings for its commercial customers. Sierra Pacific plans to redesign its commercial conservation program accordingly upon completion of the study.

The staff estimate for conservation-related expenses, to which Sierra Pacific stipulated, is $259,300. However, this figure includes $100,300 for 1983 RCS expenditures. Because RCS is actually funded through the CFA tariff, total base rate conservation expenditures will be reduced to $159,000.

The staff recommended that any conservation money not spent in 1983 should be carried over to 1984. This recommendation is consistent with the Commission's treatment of conservation funds budgeted to the other utilities, and will be adopted.

2. Nonconservation-Related Expenses

These expenses relate to a program to promote public safety and publicity activities involving the equal billing payments program, notice of office closures, and the activities of the consumer advisory panel.

The staff estimate, to which Sierra Pacific agreed, is $63,000.

The total staff estimate for customer service and information is $322,300. With the RCS adjustment noted above, we will authorize $222,000 for this category of expenses.

F. Administrative and General Expenses

These expenses relate to the support of Sierra Pacific's headquarter offices and the providing of services not identifiable with other company divisions or operations. The estimate includes jurisdictional allocation factors to determine the California share of the expenses.

The staff estimate, to which Sierra Pacific stipulated, is as follows:

SIERRA PACIFIC POWER COMPANY
California Electric Operations
Administrative and General Expenses
Test Year 1983

Acct. No.	Item	Staff (Thousands of Dollars)
	At Present Rates	
920.00	Admin. and Gen. Salaries	$ 663
921.00	Office Supplies & Expenses	182
922.00	A & G Transferred-Credit	(164)
923.00	Outside Services Employed	77
924.00	Property Insurance	37
925.00	Injuries and Damages	155
926.00	Emp. Pensions and Benefits	437
927.00	Franchise Requirements	110
928.00	Regulatory Commission Exp.	102
929.00	Duplicate Charges-Credit	(188)
930.00	Misc. General Expenses	172
931.00	Rents	138
932.00	Maint. of General Plant	8
	Total A&G Expenses	1,729
	Wage Adj.	(25)
	Nonlabor Adj.	(20)
	Allocation Adj.	(26)
	Total After Adj.	1,658

(Red Figure)

This amount will be adjusted for authorized rates.

G. Depreciation and Amortization

The staff estimate for total depreciation and amortization expense, to which Sierra Pacific stipulated, is $2,440,000.

H. Taxes Other Than Income

Taxes other than income include ad valorem taxes and payroll taxes. The staff estimate, agreed to by Sierra Pacific, is $683,000.

I. State Franchise Tax and Federal Income Tax

The staff and Sierra Pacific agree on the methodology and basic figures for these items. The actual amounts are dependent on authorized operating revenues, which include factors relating to rate base and rate of return. These items will be considered in detail below. In view of the findings hereafter made on rate base and rate of return, the Commission finds the following to be reasonable:

California Corporate Franchise Tax	$ 702,000
Federal Income Tax	$3,394,000

J. Rate Base

Rate base includes plant, working capital, and various deductions therefrom. The staff and Sierra Pacific are in agreement about most items. There is a dispute over whether one item should be included in plant held for future use (PHFU).

In May 1980, Sierra Pacific purchased 60 acres of vacant land in Reno, Nevada for a proposed centralized office and operations center. The staff recommends deletion of 27 acres from the estimate for common plant. Sierra Pacific contends all 60 acres should be included. None of the property is now included in rate base.

Sierra Pacific intends to develop the 60 acres in two phases. The first phase is the construction of a general office administration building. This would encompass approximately 33 acres. The second phase would include establishing facilities for purchasing, warehousing and transportation activities, and for parking. This would include the remaining 27 acres.

There has been no construction on any of the 60 acres. Sierra Pacific has entered into a contract with Black & Veatch, who are design architects and contractors, for design work for the office building. Black & Veach have been paid approximately $1,500,000 for work related to the first phase of construction.

Sierra Pacific argues that inclusion of the property in rate base is consistent with the Federal Energy Regulatory Commission's (FERC) Order No. 420 regarding plant held for future use, and that its proposal should therefore be adopted.

A staff senior utilities engineer gave testimony in support of excluding from PHFU the 27 acres associated with the second phase of construction. Unlike the 33 acres associated with the first phase of construction, no definite work plans have been developed for the second phase. Moreover, there are no applications for rezoning or for construction permits to develop the entire 60 acres.

Accordingly, the record indicates that the second phase of construction is not well-defined enough to suggest that actual development will begin within a reasonable period of time. Moreover, applicant has not established estimated dates of completion for any of its proposed facilities.

While the Commission has not set specific standards for allowing PHFU in rate base, generally we have allowed its placement in rate base in cases where specific and definite development plans and construction dates have been established. In this case, we agree with staff that Sierra Pacific's plans for 27 acres of its building site are too tentative and ill-defined to include the acreage in rate base as PHFU. We will therefore adopt staff's estimate of $235,000 associated with phase one of construction for inclusion in PHFU.

Further, we expect Sierra Pacific to have refined its plans for the first phase by the time of its next general rate case application, including a definite construction schedule. If such information for full use of the site is not presented, we will consider removal of any unused acreage from PHFU at that time. Similarly, if Sierra Pacific wishes inclusion of the 27 acres for the second phase in rate base, it should provide more detailed information on design, construction and scheduling.

K. Electric Revenue Adjustment Mechanism (ERAM)

Sierra Pacific proposed an ERAM similar to that authorized for other electric utilities. The staff agrees that an ERAM is appropriate. The staff proposed certain modifications to eliminate problems which could develop under Sierra Pacific's proposal. The proposed ERAM, with the staff modifications, is reasonable and should be authorized.

L. Rate of Return

Sierra Pacific requests a return on rate base of 13.55% which includes a return on common equity of 18%. The staff recommends a return on rate base of 12.67% to 13.01% which would include a return on equity of 16.25% to 16.75%.

The staff and Sierra Pacific agree that the rate of return authorized in this proceeding will not be achieved unless rates are increased in 1984 to provide for attrition.

The question of what constitutes a reasonable rate of return is one to be determined by the Commission. (City of Visalia (1969) 69 CPUC, 311, 319; PT&T Co. (1954) 53 CPUC 275, 284.)

> "Among the factors which the Commission has enumerated in recent decisions on other utilities as influencing the rate of return which also might affect the level of rates or of a particular rate are: investment in plant, cost of money, dividend-price and earnings-price ratios, territory, growth factor, comparative

> rate levels, diversification of revenues, public relations, management, financial policies, reasonable construction requirements, prevailing interest rates and other economic conditions, the trend of rate of return, past financing success, future outlook for the utility, outstanding securities and those proposed to be issued. Additional factors to be considered are adequacy of the service, rate history, customers acceptance and usage developed under existing rates, value of the service and cost to serve. No one of the above factors is solely determinative of what may constitute reasonableness of earnings, rates, or rate of return." (PT&T Co., supra at p. 309.)

Cost of money is not decisive on the issue of rate of return. (So. Cos. Gas Co. (1960) 58 CPUC 27, 44; California Water & Tel Co. (1952) CPUC 180, 190.)

The staff used an average capital structure for the test period and average-year capital costs. Sierra Pacific bases its request on year-end capitalization ratios and costs. The staff's method is more reasonable and should be adopted. With a step increase at the end of 1983, it is the most accurate means of recognizing Sierra Pacific's actual capital costs during the two-year rate period. The use of a year-end capital cost method may overstate a company's cost of capital in a specific year. The step increase recommended by the staff is based on 1984 financial attrition of 15 basis points.

Sierra Pacific relies on two primary points in asserting its request for an 18% return on equity: risk premium and coverages.

Sierra Pacific's senior vice president for finance and accounting presented a risk-premium analysis for the period 1965-1969, which he deemed to be a financially healthy period for Sierra Pacific and the utility industry. The staff presented a risk-premium analysis based on the period 1972-1981. Sierra Pacific contends the period used by the staff should not be used because it involves a period in which the financial health of the utility industry had been poor.

The use of an idealized base period during a time of general economic malaise is not persuasive. During the last five-year period Sierra Pacific's return of 8.77% was greater than the average of 7.57% for comparable utilities. The staff's estimate of capital structure for the test year, consisting of 50.50% long-term debt, 11% preferred stock, and 38.50% common equity, is attainable and appropriate for determining rate of return.

Sierra Pacific contends that the rate of return should include an after-tax interest coverage ratio of 2.75 times as a minimum to attract capital. Sierra Pacific argues that this coverage is also necessary to regain an A-bond rating. From 1973 Sierra Pacific's bonds were a Baa/BBB. In June 1977, Standard and Poor's raised the BBB to an A. In July 1979, Moody's raised the Baa to an A. In October 1981, Standard and Poor's downgraded Sierra Pacific to a BBB.

The staff recommended that the rate of return include an interest coverage of 2.41 times. The record indicates that during the past five years Sierra Pacific's interest coverage has been 1.84 times and that for comparable electric utilities has been 2.20 times.

The Commission, of course, would like to see Sierra Pacific attain a higher bond rating since this would result in a reduced cost of capital. We believe that the authorization approved today is consistent with this objective without unduly adversely affecting the ratepayers. The record discloses that Sierra Pacific has not had trouble raising capital at present revenues. At the time of the hearing there had been a significant increase in Sierra Pacific's stock from $12.78 to $13.78.

We note that interest rates have declined since the testimony in this case was prepared. The last data available to staff for preparation of testimony on long term rates was for August, 1982. At that time newly issued Public Utility Class A bonds yielded 15.66%. Today similar bonds yield around 12 to 13%. Both Sierra and staff agree that the appropriate return on equity authorization is related to the returns on other investments, including returns on debt. In a period of relatively lower interest rates, the return on equity authorization also should be lower.

Considering all the factors discussed, the Commission finds that a return on rate base of 12.57% is reasonable for the test year 1983. This will result in a return on equity of 16.00% This will permit Sierra Pacific to attain the estimated interest coverage of 2.38 times and allow a sufficient risk premium.

M. Attrition

Sierra Pacific and the staff agree that Sierra Pacific will not earn the rate of return authorized in this proceeding in 1984 unless an attrition allowance is provided for 1984. The parties presented evidence on attrition. The Commission takes official notice that in D.82-12-055 dated December 13, 1982 (Southern California Edison's test year 1983 general rate case decision) it adopted an Attrition Rate Adjustment (ARA) procedure which we deem appropriate to apply in this proceeding.

1. Advice Letter Procedure

The ARA procedure will not consider changes in sales and revenue levels because our adopted ERAM will compensate for such changes. The labor and nonlabor costs adopted for test year 1983 will be adjusted to reflect the most current rate of inflation in 1983 and then be escalated by appropriate estimates of inflation factors as discussed in the following paragraphs on indexing. A growth factor will not be adopted. Instead, we will postulate that any growth or increase in activity levels will be offset by increased productivity and efficiency.

The order will provide that Sierra Pacific may make an advice letter filing, no later than October 31, 1983, showing the additional revenue requirement calculated for the attrition year 1984. The revenue requirement will be determined in accordance with the following procedure, using figures reflected in, or compatible with, the adopted results of operations for 1983 shown in Finding 4.

2. Labor and Nonlabor Expenses

The premise for establishing an indexing formula for developing attrition year labor and nonlabor expenses is that we should use the most current estimates of inflation for 1984 in calculating the attrition allowance. Consistent with this premise, the 1983 expense base upon which we project 1984 expenses should also reflect the most up-to-date information regarding inflation for 1982 and 1983. Failure to adjust the expense base might otherwise lead to over- or underestimates of reasonable expenses in 1984.

The labor and nonlabor expense base adopted in this decision will be adjusted for 1983 to reflect the actual inflation which occurs in 1982 and the most current 1983 annual escalation rates as projected by Data Research Institute (DRI) in its fall 1983 forecast. The following indexing formula will be applied:

$$\text{Attrition Allowance} = (A \times \frac{B}{C} \times D)^{*} + A\,(1 - \frac{B}{C})$$

A = The 1983 expense base subject to escalation as adopted in this decision (CPUC jurisdictional amount).

B = The compounded factor of (one plus the 1982 escalation rate) multiplied by (one plus the 1983 escalation rate), developed from the fall 1983 DRI forecast.

C = The compounded factor of (one plus the 1982 escalation rate) multiplied by (one plus the 1983 escalation rate), adopted in this decision.

D = The 1984 escalation rate developed from the fall 1983 DRI forecast.

*Appropriate uncollectible and franchise factors shall be included.

In determining the labor expense component of attrition, Terms B and D will be based on the fall 1983 DRI projections of the Consumer Price Index (Urban) of the applicable years. For the nonlabor expense component of attrition, Terms B and D will be based on the fall 1983 DRI projections of our adopted modified producer price index and consistent with the findings of this opinion.

The adopted labor base includes labor-related pensions and benefits. The adopted nonlabor base excludes those items which are not subject to nonlabor escalation, such as labor-related pensions and benefits and amortized expenses.

3. Capital-Related Costs

The capital-related costs treated in this section include ad valorem taxes, income taxes, and depreciation expenses, as well as rate base effects. The adopted attrition allowance recognizes the bases adopted for the test year 1983.

N. Rate Design

The staff and Sierra Pacific agree on the methodology for computing marginal costs. The staff used the marginal cost methodology in allocating the revenue requirement among the four major customer classes: TOU (A-3), Medium General (A-2), Small General (A-1), and Residential (Domestic). The use of a pure equal percent marginal cost methodology (EPMC) would result in a wide disparity of increased revenue requirements between different customer groups; 42% for small general to 87% for medium general. The staff, therefore, recommended that a gradual approach to allocation should be taken, and that the EPMC group revenue targets should be averaged with the revenue allocations that would result from increasing each class' revenue obligation by the overall system average of 57%.

1. Residential Rates

The residential class represents 46% of Sierra Pacific's total California sales. Of these customers, 49% are secondary homeowners who pay a higher service charge, $2.30 as opposed to $1.65.

Legislation requiring lifeline quantities to be converted to baseline quantities and designating the baseline rate as a percent of the system average (75-85%) was enacted in 1982 (AB 2443). This redesign of residential rates will become mandatory for rate cases beginning in 1984. With the intent of moving in this direction the first tier in the staff rate designs was set at 70-80% of the system average rate.

Sierra Pacific proposed a $5 service charge for both primary and secondary residential customers. The staff proposes a $3 minimum bill for these customers to reflect the Commission's language in D.93887, dated December 30, 1981, that such charges do not give a conservation signal and should be eliminated and that a minimum bill would mitigate the inequitable benefits received by zero usage customers. The staff proposal is reasonable and should be adopted.

Sierra Pacific presently has a three-tier residential rate structure, with sales above 5,000 kWh per month assigned to the third tier. The application, as filed, included a proposal to change the threshold for the third tier to 3,000 kWh. Staff provided both a two-tier and a three-tier design, but preferred the two-tier option based in part on the small amount of sales billed at this rate.

We decline to revamp the tier structures at this time. Accordingly, we will readopt a three-tier residential rate design, including the 5,000 kWh per month threshold for the third tier. The issue of appropriate tier structure will be re-examined in Sierra Pacific's next rate case, at the time we implement the baseline legislation.

2. General Service

The general service category consists of all nondomestic service except street and outdoor lighting. Commercial, industrial, and agricultural customers are all lumped into this category and then divided into three classes based only upon their level of demand. Schedule No. A-1, Small General Service, is limited to those customers who have not exceeded 50 kilowatts (kW) demand more than twice in the preceding 12 months; Schedule No. A-2, Medium General Service, is limited to those customers who do not qualify for A-1 and have not exceeded 500 kW twice in the preceding 12 months. Schedule No. A-3, Large General Service, is a TOU schedule mandatory for all customers whose monthly demand exceeds 500 kW for any three months during the preceding 12 months.

All three of the rate schedules within this category currently have customer charges. The Medium and Large Schedules have minimum demand charges and demand ratchets. In addition, the Large Schedule has on-peak and mid-peak demand charges also subject to ratchets.

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for A-1 and have not exceeded 500 kW twice in the preceding 12 months. Schedule No. A-3, Large General Service, is a TOU schedule mandatory for all customers whose monthly demand exceeds 500 kW for any three months during the preceding 12 months.

All three of the rate schedules within this category currently have customer charges. The Medium and Large Schedules have minimum demand charges and demand ratchets. In addition, the Large Schedule has on-peak and mid-peak demand charges also subject to ratchets.

Sierra Pacific proposes to increase the A-1 service charge from $3.50 to $5 per customer per month, but maintain the existing $25 and $85 monthly customer charges for the A-2 and A-3 Schedules, respectively. The utility also proposes to maintain the minimum demand charges but soften the impact of the various demand ratchets for the A-2 and A-3 Schedules.

The staff used the customer class target base revenue requirements for the three customer groups in this category then added the utility's test year estimates for the ECAC and Annual Energy Rate (AER) to develop total rate levels. Recognizing that the amount of revenue increase granted could be less than requested, the staff recommended adjusting its General Service rate designs to achieve the adopted revenue requirement in the following manner:

> A-1 Small General - maintain the service charge at $3.50/month and adjust the Base Energy charge.
>
> A-2 Medium General - adjust both the Demand and Energy charges by approximately equal percentages.
>
> A-3 Large General (TOU) - adjust both the Demand and Energy charges by approximately equal percentages.

The rate designs proposed by the staff are consistent with Commission policy expressed in D.93887, dated December 30, 1981. In that decision the Commission made the following Findings of Fact:

> "75. Energy charges are much more responsive to usage than demand or customer charges.
>
> "76. Energy charges provide better conservation signals than demand or customer charges."
>
> * * *
>
> "89. In order to prevent radical changes in rate schedules, all customer and demand charges will not be eliminated at this time.
>
> "90. As discussed earlier in the opinion, customer and demand charges will not be increased."

a. Schedule No. A-1, Small General Services

The staff proposes to maintain the current service charge at $3.50 per customer per month rather than increase it to $5 as proposed by Sierra Pacific. While staff's recommendation is consistent with Finding of Fact 90 in D.93887, our overall policy has been to reduce or eliminate these charges when feasible. Since the combined effect of all rate changes authorized today for this class is a net decrease in rates, we choose to eliminate the service charge at this time.

b. Schedule No. A-2, Medium General Service

The staff proposes to reduce the demand charge from $5.40 to $5, eliminate the current $25 customer charge, eliminate the minimum demand charge, and eliminate all demand ratchets. Sierra Pacific proposes to increase the demand charge to $6.20, to maintain the customer charge at $25, and to soften the impact of the minimum and ratchet charges. Since the staff proposal modified for the lower revenue level as discussed above is consistent with our rate design policies, it will be adopted.

c. Street and Outdoor Lighting

Street and outdoor lighting are combined in one rate schedule. Sierra Pacific proposes to increase the base energy rates the same percentage as the average percent increase in base revenues for all other classes combined. This normally results in a larger overall percent increase to this class than that of the other four classes because the street and outdoor lighting group has a higher percentage of total class revenue derived from base rates and a lower percentage derived from ECAC rates than the other classes.

Although the proposed overall increase to this class appear inequitable at first glance, it should be kept in mind that ECAC rate increases have, and probably will continue to have, the opposite effect due to the above-mentioned imbalance of base to ECAC rates within this class. For this reason, the staff concurred in the utility's approach. The proposal will be adopted.

d. Alternate Schedule A-3, Large General Service (TOU)

In D.93771, the Commission directed Sierra Pacific to study the feasibility of extending TOU billing to the A-2 class.

In the present application, Sierra Pacific submitted a possible A-2 TOU rate (GTS-10) for those customers that exceed 200 kW demand for any three months out of the preceding 12 months. The present A-3 TOU rate is only for customers exceeding 500 kW demand, whereas the present A-2 rate is for customers having demands between 50 and 500 kW. Sierra Pacific proposes to implement an A-2 TOU Schedule, if necessary, in phases with the first phase covering the customers with demand between 200 and 500 kW. However, the utility does not recommend the Alternate A-2 TOU Schedule.

The staff agreed with the utility's proposal to phase the A-2 customers into a TOU schedule. The staff proposes accomplishing this by lowering the A-3 TOU threshold from the present 500 kW demand to 200 kW demand. This approach has the advantage of not creating a new tariff schedule and can be accomplished with less than a 0.5% shift in revenues. By adjusting the A-3 mid-peak energy charge 0.036¢/kWh demand, the A-3 TOU rate can be expanded to include the 27 customers that have demands between 200 and 500 kW. The staff proposal is based upon the premise that those who contribute the most to on-peak demand and, thus, cost, should bear the brunt of those costs and that a TOU schedule signals to those customers who have the ability to shift load that it is to their advantage to do so. The staff proposal will be adopted.

e. TOU Rating Periods

In response to a Commission request in D.93771, Sierra Pacific restudied the time periods used for its marginal cost analysis. Based on this study, the company proposes to revise the seasonal and daily time periods used in the A-3 TOU rate schedule.

The staff analyzed the data and arrived at slightly different conclusions concerning the daily time periods, which could have a significant effect on the ability and willingness of the TOU customers to shift usage from on-peak to mid- or off-peak times.

The principal differences between Sierra Pacific's and staff's proposals involve: (1) the winter season 4 p.m. to 5 p.m. time, (2) eliminating three mid-peak periods on weekdays, and

(3) Sierra Pacific's proposal to define all weekend hours as mid-peak. The staff agrees with the utility-proposed seasonal definitions.

First, Sierra Pacific proposes to include the winter season hour of 4 p.m. to 5 p.m. in the on-peak category. The utility defines on-peak time as being those hours achieving loads within 92% of the monthly peak. Only April and May of the designated winter months have loads falling within the 92% criteria for the 4 p.m. to 5 p.m. time slot. These two months have peak loads, and correspondingly the 92% threshold load, considerably lower than those of the other winter months. To include these two months in the determination of the on-peak time period distorts the analysis. For this reason, the staff proposed that the limits of the winter on-peak period should be determined by applying the utility's 92% criteria only to the months October through March. The staff's position is more reasonable and will be adopted.

Second, Sierra Pacific proposes to eliminate three of the four existing mid-peak time periods and retain only the winter hours from 7 a.m. to 4 p.m. as a weekday mid-peak period. The utility bases this proposal primarily on a judgment factor. The winter hours of 7 a.m. to 5 p.m. and 10 p.m. to 11 p.m. have relative values of load more representative of mid-peak than that of either on- or off-peak. The same rationale also applies to the summer hours of 10 p.m. to 11 p.m. For this reason, the staff proposes that all four of the above weekday mid-peak periods should be retained. The staff proposal is consistent with the Commission policy of giving conservation signals and will be adopted.

Third, weekends present a particular problem in that the weekend load curves closely follow the weekday load curves in shape but are of a lower magnitude. Sierra Pacific proposes to define all hours of the weekend as mid-peak to signal the consumer of some weekend cost. The staff proposes that this can better be accomplished by not differentiating weekends from weekdays. Since the service territory is a vacation and tourist area that produces weekend loading curves of the same general shape as the weekday curves, the customer will contribute to peak costs and receive a better signal of cost responsibility if the weekends have the same designated on-, mid-, and off-peak periods as that of the weekdays. For this reason, the staff proposal will be adopted.

f. Schedule No. A-3, Large General Service (TOU)

Sierra Pacific proposes to increase the on-peak demand charge from $4 to $10.70 per kW, to maintain the customer charge at $85 per month, and to soften the impact of the minimum and ratchet charges. The staff proposes to increase the on-peak demand charge to $8.70 per kW, to eliminate the mid-peak demand charge, to eliminate the customer charge, to eliminate the minimum charge, and to eliminate all ratchets. The staff proposal would result in an overall lowering of demand charges. Modified for the lower adopted revenue level, it will give conservation signals consistent with previously adopted Commission policy, and it will be adopted.

No other points require discussion. The Commission makes the following findings and conclusions.

Findings of Fact

1. Sierra Pacific would have gross operating revenues of $14,067,000 and a return on rate base of 8.36% at presently authorized rates for the test year 1983.

2. In May 1980, Sierra Pacific purchased 60 acres of vacant land in Reno, Nevada, for a proposed centralized office and operations center. Sierra Pacific proposes to develop the 60 acres in two phases. It is reasonable to include 33 acres of this property in rate base as plant held for future use since definite plans exist for its development.

3. ERAM is a better method for adjusting sales fluctuations than that presently used by Sierra Pacific. It is reasonable to authorize Sierra Pacific to adopt the following ERAM:

A. Purpose: The purpose of this ERAM is to adjust revenues for sales fluctuations.

B. Applicability: This ERAM provision applies to all bills for service under all rate schedules and contracts for electric service subject to the jurisdiction of the California Public Utilities Commission.

C. Base Rates: The Base Rates are the rates for electric service in effect at any time, exclusive of adjustment rates for which a balance or adjustment account is specifically provided in the Preliminary Statement in Section 6 of Sierra Pacific's tariff.

D. Base Revenue Amount: The base revenue amount is the annual revenue to be collected from Base Rates. The base revenue amount shall be increased or decreased to incorporate changes in the level of authorized revenue specified in decisions of the Commission with respect to Base Rates concurrently with the beginning of the period to which such revenue applies.

E. Revision Dates: The revision dates are as provided under Part 6 of the Preliminary Statement (ECAC) in Sierra Pacific's tariff. On such dates, or as soon thereafter as the Commission may authorize, the utility shall increase or decrease the ERAM rates applicable to each rate schedule and contract in accordance with these provisions.

F. Electric Revenue Adjustment Account: Beginning May 1, 1983, the utility shall maintain an Electric Revenue Adjustment Account. Entries shall be made to this account at the end of each month as follows:

   a. A debit entry equal to, if positive (credit entry, if negative).

      1. The applicable Base Revenue Amount multiplied by the applicable monthly factor from the table below, less

      2. The amount of Electric Department revenue from all applicable sales

recorded* during the month at Base Rates.

Month	Monthly Factor
January	10.7%
February	9.9
March	9.9
April	9.0
May	7.5
June	7.0
July	7.2
August	7.4
September	7.5
October	6.9
November	7.8
December	9.2

*Sales recorded during each month shall represent billed revenues applicable only to current month consumption plus accrued unbilled revenues for the month.

b. A credit entry equal to the amount of revenue billed during the month under ERAM rates, if positive (debit entry, if negative).

c. An entry equal to interest on the average of the balance in this account after entries a. and b. above at the interest rate provided in Section 6J(5) of Sierra Pacific's tariff.

G. The ERAM rate shall be equal to the estimated balance in the Electric Revenue Adjustment Account as of the revision date divided by the estimated sales for the four-month period beginning with the revision date. The ERAM rate shall be added to the rates otherwise in effect and shall be identified separately on each rate schedule.

H. Time and Manner of Filing and Related Reports: The utility shall include proposed revised ERAM rates in its ECAC applications. Each such filing shall be accompanied by a report which shows the derivation of the adjustment to be applied.

4. The following results of operations for the test year 1983 are reasonable:

Item	Adopted Present	Increase	Authorized
Operating Revenues			
Revenue from Sales Total Operating Revenues	$14,067,000	$5,010,000	$19,077,000
Operating Expenses			
Production	749,000	-	749,000
Transmission	109,000	-	109,000
Distribution	1,080,000	-	1,080,000
Customer Accounts	759,000	+24,000	783,000
Customer Service & Info.	222,000	-	222,000
Administrative & Gen.	1,658,000	+39,000	1,697,000
Subtotal	4,577,000	+63,000	4,640,000
Depreciation & Amortization	2,440,000	-	2,440,000
Taxes Other Than On Income	683,000	-	683,000
State Corp. Franchise Tax	227,000	-475,000	702,000
Federal Income Tax	1,337,000	+2,057,000	3,394,000
Total Operating Expenses	9,264,000	+2,595,000	11,859,000
Net Operating Revenues Adjustment	4,803,000	2,415,000	7,218,000
Rate Base	57,426,000	-	57,426,000
Rate of Return	8.36%	4.21%	12.57%

5. A return on rate base of 12.57% reflects Sierra Pacific's cost of capital, will help it maintain or raise its bond rating, and is reasonable.

6. The ARA procedure set forth in Section M of this decision is reasonable because it will fairly set the attrition allowance for 1984.

7. The rate design set forth in Section N of this decision is reasonable because it will equitably spread the increase in revenues among the classes of customers served by Sierra Pacific.

8. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and

charges, insofar as they differ from those prescribed by this decision, are for the future, unjust and unreasonable.

9. The total amount of the increase in annual revenue authorized by this decision is $5,010,000; the rate of return on rate base is 12.57% and the return on common equity is 16.00%.

10. It is reasonable and in the public interest to combine the rate adjustment in the decision in A.82-12-01 with the adjustment in this proceeding to provide for a consolidated schedule of rates. This procedure will benefit Sierra Pacific and its customers. It will lessen the confusion of two adjustments within a short period of time and will reduce implementation expenses.

11. It is reasonable to require the carry-over of any unspent conservation funds to the following year to supplement that year's budget allotment, and to give Sierra Pacific management discretion to allocate the unspent funds without prior Commission approval. However, it is reasonable to require Sierra Pacific to report any such carry-over and reallocation to the Commission.

12. To avoid further revenue losses to Sierra Pacific, and in order that the rate impacts of this decision and today's decision in A.82-12-01 occur simultaneously, it is reasonable that this decision becomes effective today.

Conclusions of Law

1. The results of operations set forth in Finding 4 should be adopted for the test year 1983 and used in establishing the rates authorized in this proceeding.

2. Sierra Pacific should be authorized to file the revised electric rates set forth in Appendix A which are designed to yield $5,010,000 in additional revenues based on the adopted results of operations for the test year 1983.

3. Appendix A should contain a consolidated rate schedule combining the rates authorized in this proceeding and the rate adjustment provided for in the decision in A.82-12-01.

4. Sierra Pacific should be authorized to file an ARA in accordance with the procedure set forth in Section N of this decision.

O R D E R

IT IS ORDERED that:

1. Sierra Pacific is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order 96-A. The effective date of the revised schedules shall be 5 days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

2. Sierra Pacific is authorized to file an advice letter for an ARA on or before October 31, 1983 in accordance with the procedure set forth in Section N of this decision.

3. Sierra Pacific is authorized to adopt the ERAM set forth in Finding 3 of this decision.

4. Sierra Pacific shall carry over any unexpended funds budgeted to conservation programs to the following year to supplement that year's conservation budget. Sierra Pacific is authorized to allocate any such funds without prior Commission approval, but shall report any such allocations to the Commission's Executive Director.

This order is effective today.

Dated APR 20 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
DONALD VIAL
Commissioners

Commissioner Priscilla C. Grew, being necessarily absent, did not participate in the disposition of this proceeding.

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director

SCHEDULE NO. D-1

DOMESTIC SERVICE

APPLICABILITY

This schedule is applicable to all domestic power service to separately metered single family dwellings and individual living units of multi-unit complexes, where such units are metered by the utility.

TERRITORY

Entire California service area.

RATES

Monthly billings shall equal the sum of the following charges:

Energy Charge -- per kWh

	Base	ECAC*	Effective
Lifeline Usage	$.04647	$.00915	$.05562
In Excess of Lifeline	.04647	.04074	.08721
In Excess of 5,000 kWh	.04647	.05962	.10609

Late Charge

1% on any amount 45 days in arrears from previous billings.

Energy Commission Surcharge

Per KWh $0.00020

* Amounts billed under the Energy Cost Adjustment Clause, as described in the Preliminary Statement.

MINIMUM CHARGE

The base portion of the rates shall be subject to a minimum charge of $3.00 per meter per month.

SPECIAL CONDITIONS

(continued)

SCHEDULE NO. DM-1

MULTI-UNIT DOMESTIC SERVICE — NOT SUBMETERED

APPLICABILITY

This schedule is applicable to all domestic power service to multiple living units on a single premises, which are not submetered by the customer. This schedule is closed to new installations effective February 4, 1978.

TERRITORY

Entire California service area.

RATES

Monthly billings shall equal the sum of the following charges:

Energy Charge — per kWh

	Base	ECAC*	Effective
Lifeline Usage	$.04647	$.00915	$.05562
In Excess of Lifeline	.04647	.04074	.08721
In Excess of 5,000 kWh	.04647	.05962	.10609

Late Charge

1% on any amount 45 days in arrears from previous billings.

Energy Commission Surcharge

Per kWh $0.00020

* Amounts billed under the Energy Cost Adjustment Clause, as described in the Preliminary Statement.

MINIMUM CHARGE

The base portion of the rates shall be subject to a minimum charge of $3.00 per meter per month.

(continued)

SCHEDULE NO. DS-1

MULTI-UNIT DOMESTIC SERVICE -- SUBMETERED

APPLICABILITY

This schedule is applicable to all domestic power service to multiple living units on a sigle premises, where customer owned submeters are used to measure the consumption at each unit.

TERRITORY

Entire California service area.

RATES

Monthly billings shall equal the sum of the following charges:

Energy Charge — per kWh

	Base	ECAC*	Effective
Lifeline Usage	$.04091	$.00915	$.05006
In Excess of Lifeline	.04647	.04074	.08721
In Excess of 5,000 kWh	.04647	.05962	.10609

Late Charge

1% on any amount 45 days in arrears from previous billings.

Energy Commission Surcharge

Per kWh $0.00020

* Amounts billed under the Energy Cost Adjustment Clause, as described in the Preliminary Statement.

** The effective lifeline rate shown is 10% lower than the corresponding effective lifeline rate for Schedule D-1 (Domestic Service).

MINIMUM CHARGE

The base portion of the rates shall be subject to a minimum charge of $3.00 per meter per month.

SPECIAL CONDITIONS

(continued)

SCHEDULE NO. A-1

SMALL GENERAL SERVICE

APPLICABILITY

This schedule is applicable to all non-domestic service where demand has not exceeded fifty (50) kilowatts for any three months during the preceding twelve months and no other schedule is specifically applicable.

TERRITORY

Entire California Service Area

RATES

Monthly billings shall equal the sum of the following charges:

Energy Charge	Base	ECAC*	Effective
All KWHR, per KWHr	$.04736	$.02954	$.07690

Late Charge
1% on any amount 45 days in arrears from previous billings

Energy Resources Surcharge (Energy Commission)
Per KWHR $ .00020

* Amounts billed under the Energy Cost Adjustment Clause, as described in the Preliminary Statement.

(Continued)

SCHEDULE NO. A-1

SMALL GENERAL SERVICE
(Continued)

SPECIAL CONDITIONS

1. Except for separately metered water heating, meter readings shall not be combined for billing hereunder.

2. Consumption for separately metered water heating service shall be billed in combination with other consumption under the rates set forth in this schedule, except that an additional customer charge shall not be made.

3. Service hereunder shall be supplied at one standard secondary voltage.

4. Utility may require a contract for service hereunder for a minimum term of not less than one year.

5. Rate schedules shall be assigned by Utility annually, based on a review of demand history. Customers whose estimated and/or metered monthly maximum demand has not exceeded fifty (50) kilowatts for any three months during the twelve month review period, will be billed under Schedule No. A-1 for the subsequent twelve month period. Changes in customer operations, as brought to the attention of Utility, shall be considered as basis for mid-year rate changes. Any change in rate, whether resulting from annual review or change in customer operations, will be prospective only, except that Utility errors in reviewing demands annually shall be grounds for retroactive billing adjustment where such adjustment results in a refund or credit to the customer. See Rule Nos. 3 and 12, applicable to optional rates and changes in customer's equipment or operations.

SCHEDULE NO. A-2

MEDIUM GENERAL SERVICE

APPLICABILITY

This schedule is applicable to all service where maximum demand is between fifty (50) kilowatts and two hundred (200) kilowatts for any three months during the preceding twelve months and where another schedule is not specifically applicable.

TERRITORY

Entire California Service Area

RATES

Monthly billings shall equal the sum of the following charges:

Demand Charge

For each kilowatt of demand $3.70

Energy Charge

	Base	ECAC*	Effective
All KWHR, per KWHr	$.02920	$.02954	$.05874

Late Charge

1% on any amount 45 days in arrears from previous billings

Power Factor Adjustment

Increase or decrease demand and energy charges by .15% for each 1% that the average power factor is more or less than 90% lagging, per Special Condition 3.

Voltage and Transformer Adjustment

Where service is delivered either directly from a primary distribution or transmission system, the demand and energy charges shall be decreased as follows:

(Continued)

SCHEDULE NO. A-2

MEDIUM GENERAL SERVICE
(Continued)

RATES (Continued)

	Primary Distribution	Transmission
a. Where service is metered at or compensated to the delivery point	1.25%	3.75%
b. Where customer owns and maintains all equipment required for transformation from the delivery voltage	1.25%	3.75%
c. Where both a) and b) exist	2.50%	5.00%
d. Where neither a) nor b) exist	None	2.50%

Energy Resources Surcharge (Energy Commission)
Per KWHR $ .00020

* Amounts billed under the Energy Cost Adjustment Clause, as described in the Preliminary Statement.

SPECIAL CONDITIONS

1. Except for separately metered water heating, meter readings shall not be combined for billing hereunder.

(Continued)

SCHEDULE NO. A-2

MEDIUM GENERAL SERVICE
(Continued)

SPECIAL CONDITIONS (Continued)

2. Determination of Demand: The demand for any billing shall be defined as the maximum measured fifteen minute average kilowatt load in the billing period. In instances, however, where the use of energy by a customer is intermittent or subject to violent fluctuations, a shorter time interval may be used and the demand determined from special measurements.

At Utility's option, a thermal type of demand meter which does not reset after a definite time interval may be used for demand measurements.

3. Utility may, at its option, measure the average power factor of any customer load served hereunder. When such a measurement is made, the demand and energy charges shall be decreased or increased, respectively .15% for each one percent that the average power factor for the billing period is more or less than 90% lagging.

4. Utility retains the right to change its line voltage at any time, after reasonable advance notice to any customer receiving a voltage and transformer adjustment. Such customer then has the option to change his system so as to receive service at the new line voltage or to accept service (without discount) through transformers to be supplied by Utility.

5. Utility may require a contract for service hereunder for a minimum term of not less than one year.

6. Rate schedules shall be assigned by Utility annually, based on a review of demand history. Customers whose estimated and/or metered monthly demand is between 50 and 200 kilowatts for any three months during the twelve month review period, and whose demand has not exceeded 200 KW for any three months will be billed under Schedule No. A-2 for the subsequent twelve month period. Changes in customer operations, as brought to the attention of Utility, shall be considered as basis for mid-year rate changes. Any change in rate, whether resulting from annual review or change in customer operations, will be prospective only, except that Utility errors in reviewing demands annually shall be grounds for retroactive billing adjustment where such adjustment results in a refund or credit to the customer. See Rule Nos. 3 and 12 applicable to optional rates and change in customers equipment or operations.

SCHEDULE NO. A-3

LARGE GENERAL SERVICE

APPLICABILITY

This schedule is applicable to three-phase general service, including light and power. This schedule is mandatory for all customers whose monthly maximum demand exceeds 200 KW for any three months during the preceding 12 months. Customer shall contract for service hereunder for a minimum term of not less than one (1) year.

TERRITORY

Entire California Service Area

RATES

Monthly billings shall equal the sum of the following charges:

Demand Charge

For each kilowatt of on-peak demand $7.50

Energy Charge	Base	ECAC*	Effective
All on-peak KWH, per KWHR	$0.02137	$0.03717	$0.05854
Plus all mid-peak KWH, per KWHR	.02137	.03203	.05370
Plus all off-peak KWH, per KWHR	.02137	.01807	.03954

Late Charge

1% on any amount 45 days in arrears from previous billings

Power Factor Adjustment

Increase or decrease demand and energy charges by .15% for each 1% that the average power factor is more or less than 90% lagging, per Special Condition 3.

Voltage and Transformer Adjustment

Where service is delivered either directly from a primary distribution or transmission system, the demand and energy charges shall be decreased as follows:

(Continued)

SCHEDULE NO. A-3

LARGE GENERAL SERVICE
(Continued)

RATES (Continued)
Voltage and Transformer Adjustment (Continued)

	Primary Distribution	Transmission
a. Where service is metered at or compensated to the delivery point	1.25%	3.75%
b. Where customer owns and maintains all equipment required for transformation from the delivery voltage	1.25%	3.75%
c. Where both a) and b) exist	2.50%	5.00%
d. Where neither a) nor b) exist	None	2.50%

Energy Resources Surcharge (Energy Commission)
Per KWHR $ .00020

* Amounts billed under the Energy Cost Adjustment Clause, as described in the Preliminary Statement.

SPECIAL CONDITIONS

1. Except for separately metered water heating, meter readings shall not be combined for billing hereunder.

2. Determination of Demand: The demand for any billing shall be defined as the maximum measured fifteen minute average kilowatt load in the billing period. In instances, however, where the use of energy by a customer is intermittent or subject to violent fluctuations, a shorter time interval may be used and the demand determined from special measurements.

(Continued)

SCHEDULE NO. A-3

LARGE GENERAL SERVICE
(Continued)

SPECIAL CONDITIONS (Continued)

At Utility's option, a thermal type of demand meter which does not reset after a definite time interval may be used for demand measurements.

3. Utility may, at its option, measure the average power factor of any customer load served hereunder. When such a measurement is made, the demand and energy charges shall be decreased or increased, respectively .15% for each one percent that the average power factor for the billing period is more or less than 90% lagging.

4. Utility retains the right to change its line voltage at any time, after reasonable advance notice to any customer receiving a voltage and transformer adjustment. Such customer then has the option to change his system so as to receive service at the new line voltage or to accept service (without discount) through transformers to be supplied by Utility.

5. Utility may require a contract for service hereunder for a minimum term of not less than one year.

6. Rate schedules shall be assigned by Utility annually, based on a review of demand history. Customers whose estimated and/or metered monthly demand exceeds 200 kilowatts for any three months during the twelve month review period will be billed under Schedule No. A-3 for the subsequent twelve month period. Changes in customer operations, as brought to the attention of Utility, shall be considered as basis for mid-year rate changes. Any change in rate, whether resulting from annual review or change in customer operations, will be prospective only, except that Utility errors in reviewing demands annually shall be grounds for retroactive billing adjustment where such adjustment results in a refund or credit to the customer. See Rule Nos. 3 and 12 applicable to optional rates and change in customers equipment or operations.

(Continued)

SCHEDULE NO. A-3

LARGE GENERAL SERVICE
(Continued)

SPECIAL CONDITIONS (Continued)

7. Daily time periods will be based on Pacific Standard Time and are defined as follows:

Winter Period:	On-Peak	5:00 P.M. to 10:00 P.M. daily
	Mid-Peak	7:00 A.M. to 5:00 P.M. and 10:00 P.M. to 11:00 P.M. daily
	Off-Peak	All Other Hours
Summer Period:	On-Peak	10:00 A.M. to 10:00 P.M. daily
	Mid-Peak	8:00 A.M. to 10:00 A.M. and 10:00 P.M. to 11:00 P.M. daily
	Off-Peak	All Other Hours

The winter period will consist of eight regularly scheduled billing periods for service provided primarily in the months of October through May. The summer period will consist of four regularly scheduled billing periods for service provided primarily in the months of June through September.

SCHEDULE NO. LS/OL

STREET AND OUTDOOR LIGHTING

APPLICABILITY

This rate is applicable to all classes of customers for lighting outdoor areas, streets, alleys, roads and highways.

TERRITORY

Entire California Service Area

RATES

Monthly billings shall equal the sum of the following charges:

Basic Charges - Per Lamp Per Month

The following charges are applicable to all installations:

Lamp Type/Nominal Rating	KWHR/ Month	Base	ECAC*	Effective
Incandescent - Closed to new installations				
1400 Lumen	35	$ 6.32	$1.03	$ 7.35
2500 Lumen	67	8.56	1.98	10.54
3200 Lumen	81	9.80	2.39	12.19
Mercury Vapor - Closed to new installations				
7,000 Lumen	67	$ 6.41	$1.98	$ 8.39
20,000 Lumen	160	13.19	4.73	17.92
High Pressure Sodium - All new installations				
5,800	28	$ 6.52	$0.83	$ 7.35
9,500	40	7.20	1.18	8.38
16,000	58	8.32	1.71	10.03
22,000	77	9.41	2.27	11.68

(Continued)

SCHEDULE No. LS/OL

STREET AND OUTDOOR LIGHTING
(Continued)

RATES (Continued)

SPECIAL CHARGES - PER MONTH AS INDICATED

In addition to the above basic charges the following special charges are applicable:

New Wood Pole	$1.55 Per Pole
New Metal Pole	4.70 Per Pole
Underground Service	6.35 Per Lamp
Customer Owned Electrolier	2.72 Credit Per Lamp

Late Charges

1% on any amount 45 days in arrears

Energy Resources Surcharge (Energy Commission)

Per KWHR $ .00020

* Amounts billed under the Energy Cost Adjustment Clause as described in the preliminary statement. Amounts shown are the product of KWHR per month times Non-Residential ECAC Billing Factor.

SPECIAL CONDITIONS

1. Service hereunder is for dusk-to-dawn burning hours of approximately four thousand one hundred (4100) hours per year.

2. Utility shall not be required to make investments in new installations in excess of the following:

Lamp Size	(a) Existing Pole	(b) New Wood Pole	(c) New Metal Pole
5,800 Lumen	$325	$400	$ 625
9,500 Lumen	350	450	650
22,000 Lumen	400	500	1,015

(Continued)

SCHEDULE No. LS/OL

STREET AND OUTDOOR LIGHTING
(Continued)

SPECIAL CONDITIONS (Continued)

Costs in excess of the above amounts shall be paid by the customer on a non-refundable basis.

3. Relocation of existing lights will be done by the Utility upon Customer's request provided the Customer reimburses the utility for net expenses incurred.

4. Utility, before December 31, 1983 shall replace all incandescent and mercury vapor lamps served hereunder with high pressure sodium lamps of a lumen rating agreed to by the customer. Billing subsequent to the replacement shall be in accordance with the appropriate rate for the size and type of high pressure sodium lamp installed.

(END OF APPENDIX A)

ORIGINAL

Decision 83 04 066 APR 20 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Sierra Pacific Power Company for general rate relief and for authority to increase its electric rates and charges for electric service and to impose certain tariff revisions.	Application 82-08-43 (Filed August 19, 1982)

Thomas R. Sheets, Attorney at Law (Ohio), James D. Salo, Attorney at Law (Nevada), and Graham & James, by Boris Lakusta, for Sierra Pacific Power Company, applicant.
Brobeck, Phleger & Harrison, by William H. Booth and Richard C. Harper, Attorneys at Law, for Sierra Ski Area Association, interested party.
James S. Rood and William N. Foley, Attorneys at Law, for the Commission staff.

O P I N I O N

This is an application by Sierra Pacific Power Company (Sierra Pacific) which seeks authority to increase its electric rates. As filed, the application requested a 56.4% increase amounting to approximately $8 million for test year 1983. As a result of stipulations entered into during the course of the hearing, Sierra Pacific's request was reduced to approximately $6.3 million, an increase of 44.8%.

Summary of Decision

Sierra Pacific seeks a general increase in electric rates. The application as filed sought an increase in revenues of $8 million for test year 1983. Sierra Pacific modified its request to $6.3 million. It seeks a return on rate base of 13.55% and a return on common equity of 18%.

This decision grants Sierra Pacific a 36.0% increase in rates to yield additional revenues of $5,010,000, a return on rate base of 12.57%, and a return on common equity of 16.00%.

The use of an idealized base period during a time of general economic malaise is not persuasive. During the last five-year period Sierra Pacific's return of 8.77% was greater than the average of 7.57% for comparable utilities. The staff's estimate of capital structure for the test year, consisting of 50.50% long-term debt, 11% preferred stock, and 38.50% common equity, is attainable and appropriate for determining rate of return.

Sierra Pacific contends that the rate of return should include an after-tax interest coverage ratio of 2.75 times as a minimum to attract capital. Sierra Pacific argues that this coverage is also necessary to regain an A-bond rating. From 1973 Sierra Pacific's bonds were a Baa/BBB. In June 1977, Standard and Poor's raised the BBB to an A. In July 1979, Moody's raised the Baa to an A. In October 1981, Standard and Poor's downgraded Sierra Pacific to a BBB.

The staff recommended that the rate of return include an interest coverage of 2.41 times. The record indicates that during the past five years Sierra Pacific's interest coverage has been 1.84 times and that for comparable electric utilities has been 2.20 times.

The Commission, of course, would like to see Sierra Pacific attain a higher bond rating since this would result in a reduced cost of capital. We believe that the authorization approved today is consistent with this objective without unduly adversely affecting the ratepayers. The record discloses that Sierra Pacific has not had trouble raising capital at present revenues. At the time of the hearing there had been a significant increase in Sierra Pacific's stock from $12.78 to $13.78.

We note that interest rates have declined since the testimony in this case was prepared. The last data available to staff for preparation of testimony on long term rates was for August, 1982. At that time newly issued Public Utility Class A bonds yielded 15.66%. Today similar bonds yield around between 12 and 13%. Both Sierra and staff agree that the appropriate return on equity authorization is related to the returns on other investments, including returns on debt. In a period of relatively lower interest rates, the return on equity authorization also should be lower.

calculating the attrition allowance. Consistent with this premise, the 1983 expense base upon which we project 1984 expenses should also reflect the most up-to-date information regarding inflation for 1982 and 1983. Failure to adjust the expense base might otherwise lead to over- or underestimates of reasonable expenses in 1984.

The labor and nonlabor expense base adopted in this decision will be adjusted for 1983 to reflect the actual inflation which occurs in 1982 as the most current 1983 annual escalation rates as projected by Data Research Institute (DRI) in its fall 1983 forecast. The following indexing formula will be applied:

$$\text{Attrition Allowance} = \left(A \times \frac{B}{C} \times D\right)^{*} - A\left(1 - \frac{B}{C}\right)$$

A = The 1983 expense base subject to escalation as adopted in this decision (CPUC jurisdictional amount).

B = The compounded factor of (one plus the 1982 escalation rate) multiplied by (one plus the 1983 escalation rate), developed from the fall 1983 DRI forecast.

C = The compounded factor of (one plus the 1982 escalation rate) multiplied by (one plus the 1983 escalation rate), adopted in this decision.

D = The 1984 escalation rate developed from the fall 1983 DRI forecast.

*Appropriate uncollectible and franchise factors shall be included.

In determining the labor expense component of attrition, Terms B and D will be based on the fall 1983 DRI projections of the Consumer Price Index (Urban) of the applicable years. For the nonlabor expense component of attrition, Terms B and D will be based on the fall 1983 DRI projections of our adopted modified producer price index and consistent with the findings of this opinion.

The adopted labor base includes labor-related pensions and benefits. The adopted nonlabor base excludes those items which in this direction the first tier in the staff rate designs was set at 70-80% of the system average rate.

Sierra Pacific proposed a $5 service charge for both primary and secondary residential customers. The staff proposes a $3 minimum bill for these customers to reflect the Commission's language in D.93887, dated December 30, 1981, that such charges do not give a conservation signal and should be eliminated and that a minimum bill would mitigate the inequitable benefits received by zero usage customers. The staff proposal is reasonable and should be adopted.

~~Sierra Pacific presently has a three-tier residential rate structure, with sales above 5,000 kWh per month assigned to the third tier. The application, as filed, included a proposal to change the threshold for the third tier to 3,000 kWh. Staff provided both a two-tier and a three-tier design, but preferred the two-tier option based in part on the small amount of sales billed at this rate.~~

~~We decline to revamp the tier structures at this time. Accordingly, we will readopt a three-tier residential rate design, including the 5,000 kWh per month threshold for the third tier. The issue of appropriate tier structure will be re-examined in Sierra Pacific next rate case, at the time we implement the baseline legislation.~~

2. General Service

The general service category consists of all nondomestic service except street and outdoor lighting. Commercial, industrial, and agricultural customers are all lumped into this category and then divided into three classes based only upon their level of demand. Schedule No. A-1, Small General Service, is limited to those customers who have not exceeded 50 kilowatts (kW) demand more than twice in the preceding 12 months; Schedule No. A-2, Medium General Service, is limited to those customers who do not qualify

Item	Adopted Present	Increase	Authorized
Operating Revenues			
Revenue from Sales Total Operating Revenues	14,067,000	5,010,000	19,077,000
Operating Expenses			
Production	749,000	-	749,000
Transmission	109,000	-	109,000
Distribution	1,080,000	-	1,080,000
Customer Accounts	759,000	+24,000	783,000
Customer Service & Info.	222,000	-	222,000
Administrative & Gen.	1,658,000	+39,000	1,697,000
Subtotal	4,577,000	+63,000	4,640,000
Depreciation & Amortization	2,440,000	-	2,440,000
Taxes Other Than On Income	683,000	-	683,000
State Corp. Franchise Tax	227,000	+475,000	702,000
Federal Income Tax	1,337,000	+2,057,000	3,394,000
Total Operating Expenses	9,264,000	+2,595,000	11,859,000
Net Operating Revenues Adjustment	4,803,000	2,415,000	7,218,000
Rate Base	57,426,000	-	57,426,000
Rate of Return	8.36%	4.21%	12.57%

5. A return on rate base of 12.57% reflects Sierra Pacific's cost of capital, will help it maintain or raise its bond rating, and is reasonable.

6. The ARA procedure set forth in Section M of this decision is reasonable because it will fairly set the attrition allowance for 1984.

7. The rate design set forth in Section N of this decision is reasonable because it will equitably spread the increase in revenues among the classes of customers served by Sierra Pacific.

8. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and

SCHEDULE NO. D-1

DOMESTIC SERVICE

APPLICABILITY

This schedule is applicable to all domestic power service to separately metered single family dwellings and individual living units of multi-unit complexes, where such units are metered by the utility.

TERRITORY

Entire California service area.

RATES

Monthly billings shall equal the sum of the following charges:

Energy Charge — per KWh

	Base	ECAC*	Effective
Lifeline Usage	~~$0.04710~~ .04647	~~$0.0[illegible]~~ .00915	~~$0.0[illegible]~~ .05562
In Excess of Lifeline	~~.04710~~ .04647	~~.04108~~ .04074	~~.08818~~ .08721
In Excess of 5000 KWh	.04647	.05962	.10609

Late Charge

1% on any amount 45 days in arrears from previous billings.

Energy Commission Surcharge

Per KWh $0.00020

* Amounts billed under the Energy Cost Adjustment Clause, as described in the Preliminary Statement.

MINIMUM CHARGE

The base portion of the rates shall be subject to a minimum charge of $3.00 per meter per month.

SPECIAL CONDITIONS

(continued)

SCHEDULE NO. DM-1

MULTI-UNIT DOMESTIC SERVICE — NOT SUBMETERED

APPLICABILITY

This schedule is applicable to all domestic power service to multiple living units on a single premises, which are not submetered by the customer. This schedule is closed to new installations effective February 4, 1978.

TERRITORY

Entire California service area.

RATES

Monthly billings shall equal the sum of the following charges:

Energy Charge — per KWh

	Base	ECAC*	Effective
Lifeline Usage	~~$0.04718~~ .04647	~~$0.00874~~ .00915	~~$0.05592~~ .05562
In Excess of Lifeline	~~.04718~~ .04647	~~.04108~~ .04074	~~.08826~~ .08721
In Excess of 5000 kWh	.04647	.05962	.10609

Late Charge

1% on any amount 45 days in arrears from previous billings.

Energy Commission Surcharge

Per KWh $0.00020

* Amounts billed under the Energy Cost Adjustment Clause, as described in the Preliminary Statement.

MINIMUM CHARGE

The base portion of the rates shall be subject to a minimum charge of $3.00 per meter per month.

(continued)

SCHEDULE NO. DS-1

MULTI-UNIT DOMESTIC SERVICE — SUBMETERED

APPLICABILITY

This schedule is applicable to all domestic power service to multiple living units on a sigle premises, where customer owned submeters are used to measure the consumption at each unit.

TERRITORY

Entire California service area.

RATES

Monthly billings shall equal the sum of the following charges:

Energy Charge — per kWh

	Base	ECAC*	Effective
Lifeline Usage	~~$0.04152~~ .04091	~~$0.00874~~ .00915	~~$0.05026~~ .05006
In Excess of Lifeline	~~.04710~~ .04647	~~.04108~~ .04074	.08818 .08721
In Excess of 5000 kWh	.04647	.05962	.10609

Late Charge

1% on any amount 45 days in arrears from previous billings.

Energy Commission Surcharge

Per kWh $0.00020

* Amounts billed under the Energy Cost Adjustment Clause, as described in the Preliminary Statement.

** The effective lifeline rate shown is 10% lower than the corresponding effective lifeline rate for Schedule D-1 (Domestic Service).

MINIMUM CHARGE

The base portion of the rates shall be subject to a minimum charge of $3.00 per meter per month.

SPECIAL CONDITIONS

(continued)

SCHEDULE NO. A-1

SMALL GENERAL SERVICE

APPLICABILITY

This schedule is applicable to all non-domestic service where demand has not exceeded fifty (50) kilowatts for any three months during the preceding twelve months and no other schedule is specifically applicable.

TERRITORY

Entire California Service Area

RATES

Monthly billings shall equal the sum of the following charges:

~~Customer Charge~~
~~Per Meter Per Month $ 9.50~~

Energy Charge	Base	ECAC*	Effective
All KWHR, per KWHr	~~$.04571~~ .04736	$.02954	~~$.07525~~ .07690

Late Charge
1% on any amount 45 days in arrears from previous billings

Energy Resources Surcharge (Energy Commission)
Per KWHR $ .00020

* Amounts billed under the Energy Cost Adjustment Clause, as described in the Preliminary Statement.

(Continued)

SCHEDULE NO. A-2

MEDIUM GENERAL SERVICE

APPLICABILITY

This schedule is applicable to all service where maximum demand is between fifty (50) kilowatts and two hundred (200) kilowatts for any three months during the preceding twelve months and where another schedule is not specifically applicable.

TERRITORY

Entire California Service Area

RATES

Monthly billings shall equal the sum of the following charges:

Demand Charge

For each kilowatt of demand $3.70

	Base	ECAC*	Effective
Energy Charge			
All KWHR, per KWHr	~~$.02977~~ .02920	$.02954	~~$.05931~~ .05874

Late Charge

1% on any amount 45 days in arrears from previous billings

Power Factor Adjustment

Increase or decrease demand and energy charges by .15% for each 1% that the average power factor is more or less than 90% lagging, per Special Condition 3.

Voltage and Transformer Adjustment

Where service is delivered either directly from a primary distribution or transmission system, the demand and energy charges shall be decreased as follows:

(Continued)

SCHEDULE NO. A-3

LARGE GENERAL SERVICE

APPLICABILITY

This schedule is applicable to three-phase general service, including light and power. This schedule is mandatory for all customers whose monthly maximum demand exceeds 200 KW for any three months during the preceding 12 months. Customer shall contract for service hereunder for a minimum term of not less than one (1) year.

TERRITORY

Entire California Service Area

RATES

Monthly billings shall equal the sum of the following charges:

Demand Charge

For each kilowatt of on-peak demand ~~$7.60~~ $2.50

Energy Charge	Base	ECAC*	Effective
All on-peak KWH, per KWHR	$0.021~~71~~37	$0.037~~22~~17	$0.~~05893~~ .05854
Plus all mid-peak KWH, per KWHR	.021~~81~~57	.032~~24~~03	~~.05405~~ .05320
Plus all off-peak KWH, per KWHR	.021~~71~~57	.018~~11~~07	~~.03982~~ .03154

Late Charge

1% on any amount 45 days in arrears from previous billings

Power Factor Adjustment

Increase or decrease demand and energy charges by .15% for each 1% that the average power factor is more or less than 90% lagging, per Special Condition 3.

Voltage and Transformer Adjustment

Where service is delivered either directly from a primary distribution or transmission system, the demand and energy charges shall be decreased as follows:

(Continued)

SCHEDULE NO. LS/OL

STREET AND OUTDOOR LIGHTING

APPLICABILITY

This rate is applicable to all classes of customers for lighting outdoor areas, streets, alleys, roads and highways.

TERRITORY

Entire California Service Area

RATES

Monthly billings shall equal the sum of the following charges:

Basic Charges - Per Lamp Per Month

The following charges are applicable to all installations:

Lamp Type/Nominal Rating	KWHR/ Month	Base	ECAC*	Effective
Incandescent - Closed to new installations				
1400 Lumen	35	$ 6.~~38~~32	$1.03	$ 7.~~41~~35
2500 Lumen	67	8.~~68~~56	1.98	10.~~66~~54
3200 Lumen	81	9.~~95~~80	2.39	12.~~34~~19
Mercury Vapor - Closed to new installations				
7,000 Lumen	67	$ 6.~~53~~41	$1.98	$ 8.~~51~~39
20,000 Lumen	160	13.~~49~~19	4.73	~~18.22~~ 17.92
High Pressure Sodium - All new installations				
5,800	28	$ 6.~~57~~52	$0.83	$ 7.~~40~~35
9,500	40	7.~~27~~20	1.18	8.~~45~~38
16,000	58	8.~~43~~32	1.71	10.~~14~~03
22,000	77	9.~~55~~41	2.27	11.~~82~~68

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