

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION AND COMPLIANCE DIVISION
Energy BranchRESOLUTION E-3015
December 22, 1986

RESOLUTION

SIERRA PACIFIC POWER COMPANY (SIERRA), ELECTRIC DEPARTMENT.
REQUEST FOR AUTHORIZATION TO INCREASE BASE RATE REVENUE TO
COMPENSATE FOR OPERATIONAL AND FINANCIAL ATTRITION, RESULTING
IN AN ANNUAL REVENUE INCREASE OF \$444,000.

By Advice Letter 196-E, filed November 5, 1986, Sierra Pacific Power Company (Sierra), requested authorization to increase its annual revenues to compensate Sierra for operational and financial attrition for 1987. The filing was amended by Advice Letter 196-E (Revised), filed November 20, 1986, by Advice Letter 196-E (2nd Revision), filed December 3, 1986 and by Advice Letter 196-E (3rd Revision), filed December 8, 1986. By its last revision Sierra requests an attrition increase of \$444,000. The facts are as follows:

1. This filing is being made pursuant to Decision 85-12-076, dated December 18, 1985.
2. The attrition allowance relating to operating expenses is determined by an indexing formula approved by this Commission in Decision 85-12-076. The formula is based on adopted operating expenses from Decision 86-02-030 in Sierra's last General Rate Case Application 85-05-017.
3. Sierra requests that the proposed increase in authorized base revenues and rates become effective on January 1, 1987, and that rates be increased in conjunction with interim rate changes resulting from its ECAC/ERAM Applications 86-09-004 and 86-09-005.
4. In compliance with Decision 85-12-076, Sierra has included in this Attrition filing an updated financing plan for 1986 and 1987, updated embedded cost of debt and updated forecast for new debt to be issued in 1987. Sierra has employed the return on equity found reasonable in its last General Rate Case and has used a five year average to estimate net plant additions in 1987.
5. Sierra's requested capital ratio for 1987 differs slightly from the capital ratio adopted for Test Year 1986 in General Rate Case Decision 86-02-030, in Application 85-07-017. In that

Decision the Commission adopted the 1986 capital ratio recommended by Public Staff Division (PSD). Sierra's requested capital ratio for 1987 is the same as that recommended for 1987 by PSD in the General Rate Case. It is reasonable that Sierra's requested change in capital ratios be authorized.

6. The ratemaking elements of Sierra's requested 1987 attrition increase are shown in Attachment A. Sierra's adopted capital structure for Test Year 1986 and requested capital structure for Attrition Year 1987 are shown in Attachment B.

7. Since December 8, 1986, when Sierra filed its request for \$444,000 in Advice Letter 196-E (3rd Revision), the utility has agreed to reduce its return on equity for Attrition Year 1987. On December 22, 1986, in a written stipulation Sierra agreed to a reduction of return on equity to 13.9% from its originally requested 15.0%, while increasing equity ratio from 39.77% to 43.45%. The impact of this change would be to reduce attrition revenues from \$444,000 to \$253,000, for a net reduction of \$191,000. The change in capital structure is shown in Attachment B, and the adopted revenue increase in Attachment A.

8. In its Test Year 1986 General Rate Case Sierra made adjustments to reflect the impact of interest synchronization on revenue requirements. Therefore no similar adjustment is necessary in this filing.

9. Sierra's request includes income taxes based on 1986 tax rates in effect. Consideration of the revenue requirement impacts of the Tax Reform Act of 1986 is deferred to Order Instituting Investigation 86-11-019, which orders that all revenues collected during 1987 are subject to refund pending the outcome of that proceeding.

10. The Evaluation and Compliance Division has reviewed Sierra's request and associated workpapers, and recommends that an increase of \$253,000 be granted.

11. Public notification of these filings have been made by mailing copies of the advice letters to other utilities, governmental agencies, and to all interested parties who requested them. The Commission has received no protests in this matter.

THEREFORE:

1. Sierra Pacific Power Company is authorized to file revised tariff schedules increasing base rate revenues by \$253,000 to compensate for operational and financial attrition, to become effective on January 1, 1987.

2. Sierra is authorized to include revenues of \$253,000 in rates, in conjunction with revenues authorized in its ECAC/ERAM proceedings, in Applications 86-09-004 and 86-09-005, when revised tariff schedules are filed in compliance with a Commission decision in those proceedings. The attrition revenue requirement shall be spread to rates by the System Average Percent Change (SAPC) method, or in accordance with rate design principles adopted in the ECAC/ERAM decision.

3. The tariff sheets shall be marked to show that they were authorized for filing by Commission Resolution E-3015. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 22, 1986. The following Commissioners approved it:



Victor Weissel

Executive Director

DONALD VIAL
President
VICTOR CALVO
FREDERICK R. DUDA
STANLEY W. HULETT
Commissioners

Resolution E-3015
ATTACHMENT A

SIERRA PACIFIC POWER COMPANY
ATTRITION YEAR 1987 RATE ADJUSTMENT ALLOWANCE
(Thousands of Dollars)

<u>Operating Expenses</u>	<u>1986 Adopted Base For Indexing</u>	<u>Increase Requested</u>	<u>Increase Adopted</u>
Labor	\$ 4,994	\$ 152	\$ 152
Non-labor	<u>3,583</u>	<u>(121)</u>	<u>(121)</u>
Total costs subject to indexing	\$ 8,577	\$ 31	\$ 31
<u>Fixed Costs</u>			
Rate Base		\$ 320	\$ 316
Depreciation Expense		121	121
Property Taxes		18	18
Financing Cost		(46)	(233)
Total Fixed Costs		<u>\$ 413</u>	<u>\$ 222</u>
TOTAL ATTRITION REVENUE REQUIREMENT		<u>\$ 444</u>	<u>\$ 253</u>

ADOPTED CALIFORNIA RATE BASE

1986	\$ 70,588
1987	72,280

SIERRA PACIFIC POWER COMPANY
ATTRITION YEAR 1987 CHANGES IN COST OF CAPITAL

	<u>Capital Ratio</u>	<u>Cost of Capital</u>	<u>Weighted Cost of Capital</u>
<u>Test Year 1986 (D.86-02-030)</u>			
Long-term Debt	52.30%	9.45%	4.942%
Preferred Stock	8.75	10.19	0.892
Common Equity	38.95	15.00	5.843
Total	100.00%		11.676%
<u>Attrition Year 1987 (Requested)</u>			
Long-term Debt	52.12%	9.24%	4.816%
Preferred Stock	8.11	9.84	0.798
Common Equity	39.77	15.00	5.966
Total	100.00%		11.579%
<u>Attrition Year 1987 (Adopted)</u>			
Long-term Debt	49.09%	9.24%	4.536%
Preferred Stock	7.46	9.84	0.734
Common Equity	43.45	13.90	6.040
Total	100.00%		11.310%