Original

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3068
December 17, 1987.

R E S O L U T I O N

RESOLUTION E-3068, AUTHORIZING SIERRA PACIFIC POWER COMPANY TO INCREASE ELECTRIC BASE REVENUE AMOUNT AND ELECTRIC TARIFF RATES TO OFFSET 1988 OPERATIONAL AND FINANCIAL ATTRITION AND CERTAIN EXPENSE ADJUSTMENTS EFFECTIVE JANUARY 1, 1988, CONCURRENT WITH OTHER PENDING RATE ADJUSTMENTS; BY ADVICE LETTER 200-E, FILED NOVEMBER 6, 1987.

SUMMARY

By Advice Letter 200-E filed November 6, 1987 and Supplemental Advice Letter 200-E-A filed December 7, 1987, Sierra Pacific Power Company (Sierra) requests approval to revise the Preliminary Statement of its filed Electric Tariffs, increasing the base revenue amount by $314,000 to offset 1988 operational and financial attrition and certain expense adjustments.

Ordering Paragraph 12 of Decision 87-12-068 requires that the adopted cost of capital from Ordering Paragraph 10 be used in conjunction with this an advice letter filing. By this Resolution, Sierra is authorized a decrease in revenue requirements of $203,200. The effects of the Tax Reform Act of 1986 (TRA) are not considered in Sierra's request.

Sierra also requests that rate adjustments due to attrition be implemented in conjunction with upcoming Energy Cost Adjustment Clause/Energy Revenue Adjustment Mechanism (ECAC/ERAM) rates to promote rate stability.

BACKGROUND

1. Sierra furnishes electric service in California and Nevada. It also furnishes gas and water service in Nevada. Its California service territory is located principally in the Lake Tahoe area. Its 39,000 customers in California account for about 10% of system sales.

2. By this advice letter filing, Sierra requests review and revision of its required return on equity and overall rate of return as recognized for ratemaking purposes in connection with conduct of public utility business in California.

3. Operational attrition is a decrease in a utility's net operating income due to increases in operation and maintenance expenses attributable to inflation between general rate case test years.

4. Financial attrition is a change in a utility's net operating income due to changes in plant in service and cost of capital between general rate case test years.

5. In D.86-02-030 the Commission adopted the test year 1986 capital structures and rates of return as shown in Attachment A to this Resolution. Sierra was authorized an attrition increase by Resolution E-3015, December 22, 1986.

6. This request was filed in compliance with the Attrition Rate Adjustment (ARA) mechanism adopted in Decision 83-04-066 and Decision 85-12-076.

7. Sierra filed proposed operational and financial attrition schedules using a 13.75% return on common equity and 10.80% rate of return in Application 87-09-013 (see Attachment A). Advice Letter 200-E requests a net revenue increase of $302,000 for 1988.

8. Sierra also requests that the proposed increase in the base revenue amount become effective on January 1, 1988, but that they be allowed to implement rates in conjunction with rate changes resulting from its ECAC/ERAM proceedings expected to conclude February 1, 1988.

DISCUSSION

1. The staff of the Commission Advisory and Compliance Division has reviewed the Sierra request and associated workpapers, and has calculated the revenues based on the Decision 87-12-068 accordingly.

2. On December 7, 1987, Sierra amended its original attrition request by Advice Letter 200-E-Supplemental. Sierra now revises its 1988 attrition request to $314,000 from its original request of $302,000.

3. Sierra uses 3.00% escalation for Labor Expenses which reflects Sierra's union wage settlement effective May 1, 1987. Sierra uses 3.82% escalation for Non-Labor

Expenses, which is the Spring 1987 forecast of Modified Producer Price Index by Data Resources Inc. (DRI).

4. Attachment A summarizes the capital structures adopted in D.86-02-030 and D.87-12-068. Attachment B outlines the impact of D.87-12-068 on capital related items. As a consequence, the Sierra attrition request is reduced by $517,200. The adopted revenue changes are shown below:

	Amended Request	Adopted
Operations & Maintenance	$ 200,000	$ 200,000
Capital Related Items	114,000	(403,200)
TOTALS	$ 314,000	$ (203,200)

5. Sierra's revised request incorporates the old Federal tax rate of 46% and the old State Tax rate of 9.6%. Sierra's request does not incorporate an estimate for the TRA impact on 1988 taxes. Final consideration of the revenue impact of the TRA is deferred to Investigation (I.) 86-11-019.

6. Per D.87-12-068 and the terms of this Resolution, Sierra should reduce its ERAM base revenue amount by $203,200. Sierra should defer the corresponding rate reduction to be incorporated with rates authorized in its pending ECAC/ERAM Application (A.)87-09-028.

7. Public notification of these filings has 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, IT IS ORDERED THAT:

1. Sierra Pacific Power Company shall reduce its ERAM base revenue amount by $203,200 to compensate for operational and financial attrition for 1988, as outlined in Attachment B of this Resolution.

2. Sierra Pacific Power Company is authorized to defer the corresponding rate decrease until the effective date of rates resulting from its pending ECAC/ERAM A.87-09-028.

3. Final consideration of the impacts of the Tax Reform Act of 1986 is deferred to I.86-11-019.

4. Within seven (7) days of the effective date of this Resolution, Sierra Pacific Power Company shall file a revised Preliminary Statement reflecting the revenues adopted by this Resolution.

5. The filed tariff sheets shall be marked to show that they were authorized for filing by Commission Resolution E-3068, and that the base revenue amount is effective January 1, 1988.

6. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at the December 22, 1987 continuation of its regular meeting of December 17, 1987. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

Victor Weisser

Executive Director

Sierra Pacific Power Company
1988 Attrition Allowance

Present Authorized Capital Structure
(Attrition Year 1987)

Component	Capital Ratio	Cost Factor	Weighted Cost
Long Term Debt	49.09%	9.24%	4.54%
Preferred Stock	7.46	9.84	0.73
Common Equity	43.45	13.90	6.04
Total	100.00%		
Rate of Return			11.31%

Requested Capital Structure
(Attrition Year 1988)

Component	Capital Ratio	Cost Factor	Weighted Cost
Long Term Debt	49.09	8.74%	4.28%
Preferred Stock	7.46	7.24	0.54
Common Equity	43.45	13.75	5.97
TOTAL	100.00%		
Rate of Return			10.80%

Adopted Captial Structure
(Attrition Year 1988)

Component	Capital Ratio	Cost Factor	Weighted Cost
Long Term Debt	49.09%	8.71%	4.28%
Preferred Stock	7.46	7.35	0.55
Common Equity	43.45	12.90	5.61
TOTAL	100.00%		
Rate of Return			10.44%

E-3068
Attachment B

Sierra Pacific Power Company
1988 Attrition Allowance

Revenue Requirements
($000)

	Requested	Amended	Adopted
Operational Attrition			
Labor Inflation	$ 449	$ 75	$ 75
Non-Labor Inflation	131	125	125
Total O&M Expense	580	200	200
Capital Related Items (including Financial Attrition)			
Book Depreciation Expense	$ 237	$ 465	$ 465
Ad Valorem Taxes	36	75	75
State Tax Depreciation	(17)	(33)	(33)
Federal Tax Depreciation	(108)	(226)	(226)
ITC Normalized	0	0	0
Interest Synchronization	(2)	(2)	(2)
Debt Cost	(112)	(49)	(78.5)
Preferred Stock Cost	(285)	(268)	(247.9)
Common Equity Cost	(27)	152	(355.8)
Total Capital Related Items	$ (278)	$ 114	$ (403.2)
Total Revenue Change	$ 302	$ 314	$ (203.2)
Tax Reform Act of 1986	$ 0	$ 0	$ 0
Rate Base	$ 73,324	$ 74,768	$ 74,768

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
ENERGY BRANCH

RESOLUTION E-3067
FEBRUARY 24, 1988

R E S O L U T I O N

PACIFIC GAS AND ELECTRIC COMPANY (PG&E), ELECTRIC DEPARTMENT. ORDER AUTHORIZING PG&E TO MODIFY ITS METHOD OF CALCULATING THE POWER FACTOR ADJUSTMENT IN SCHEDULES A-10, A-11, AND E-20.
(Advice Letter 1175-E, Filed October 16, 1987.)

SUMMARY

1. By Advice Letter 1175-E filed October 16, 1988, PG&E requested authorization to modify its current method of calculating the power factor adjustment applied to electric bills of customers taking service under electric rate schedules A-10, A-11, and E-20 for large and medium light and power customers. The new method is designed to simplify billing and reduce administrative costs in calculating customers' bills.

2. By this Resolution, PG&E is authorized to make the modifications to schedule A-10, A-11, and E-20 as requested.

BACKGROUND

3. Power factor is the ratio of the active power (kilowatts) to the apparent power (kilovolt-amperes) used by an electrical device in an alternating current circuit. Only the active power is capable of performing useful work, and thus, the power factor is an indication of how much of the total current is actually doing work.

4. The bill adjustment for power factor accounts for the electrical current that PG&E must produce for large and medium light and power classes, but which is not actually put to any useful purpose. This extra current, while serving no useful purpose, still requires electric capacity. The power factor adjustment acts as an incentive for customers to use efficient electrical devices or to increase their power factor by installing special corrective equipment.

5. Customers with demands of 400 kilowatts or more have power factor adjustments in their rates. Customers receive a lower bill for maintaining an average power factor greater than 85 percent, and receive a higher bill for maintaining and average power factor less than 85 percent. A customer who

maintains an average power factor of 85 percent receives no bill adjustment. The 85 percent cutoff is chosen because historically, this has been the average power factor for large and medium light and power customers. In addition, a customer whose demand is less than 400 kilowatts receives no power factor adjustment because it is not cost effective to install the extra wire needed to measure the power factor.

DISCUSSION

6. Currently, the power factor rate adjustment is used for billing as follows: A base number equal to the sum of customer charge, the demand charge, and the portion of the energy charge stemming from the base energy rate is determined. When a customer's average power factor is greater than 85 percent, this base number is reduced by 0.1 percent for each percentage point the power factor exceeds 85 percent. Conversely, when a customer's average power factor is less than 85 percent, this base number is increased by 0.1 percent for each percentage point the power factor is below 85 percent. The problem is that under this method, PG&E's customers cannot calculate the power factor adjustment by simple reference to their bill because the bill does not show the base energy rate. In addition, PG&E must reprogram the power factor computation for billing each time there is a change in base rates.

7. Under PG&E's proposed method, a customer whose average power factor is greater than 85 percent would have his bill reduced by 0.06 percent for each percentage point the power factor exceeds 85 percent. A customer whose average power factor is less than 85 percent would have his bill increased by 0.06 percent for each percentage point the power factor is below 85 percent. The bill adjusment would be applied to total charges, exclusive of any taxes. Under this method, customers could determine their power factor adjustment from information appearing on their electric bill.

8. According to PG&E, the 0.06 percent adjustment has been calculated to provide the same revenue effects as the existing adjustment, and therefore, should not measurably effect revenues. In some individual cases, the power factor adjustments may be affected, however, any changes should be no more than one half of one percent of the bill.

9. The power factor adjustment of 0.06 percent was calculated as shown in attachment 1. The new adjustment was calculated using large light and power revenues adopted in Decision (D.)86-12-091 in PG&E's Energy Cost Adjustment Clause Application (A.) 86-04-012. Although A-10 and A-11 customers may be subject to a power factor adjustment if their demands exceed 400 kW, revenues from these schedules were not used in

the calculation because only a few customers from these schedules have enough demand to be subject to the adjustment.

10. The Commission Advisory and Compliance Division (CACD) has reviewed this advice letter and has determined that any revenue effects would be small. CACD recommends its approval.

11. No protests were received regarding this filing.

FINDINGS

1. We find that the rates, charges and conditions of service as proposed in Advice Letter 1175-E are just and reasonable;

Therefore, IT IS ORDERED that:

1. Pacific Gas and Electric Company is hereby authorized to amend the method of calculating the power factor adjustment for rate Schedules A-10, A-11, and E-20 as proposed in Advice Letter 1175-E.

2. Advice Letter 1175-E and accompanying tariff sheets shall be marked to show that they were approved for filing by Commission Resolution E-3067; the tariff sheet shall be effective on and after March 1, 1988.

3. This Resolution is effective today.

I hereby certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on February 24, 1988. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
JOHN B. OHANIAN
Commissioners

Victor Weisser
Executive Director