

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION AND COMPLIANCE DIVISION
Advisory, Evaluation and Research Branch

RESOLUTION E-3042
July 8, 1987

R E S O L U T I O N

CP NATIONAL CORPORATION (CPN), ELECTRIC DEPARTMENT. ORDER AUTHORIZING CPN TO REVISE ELECTRIC RATES IN ITS LASSEN DISTRICT TO COMPENSATE FOR OPERATIONAL AND FINANCIAL ATTRITION AS PROVIDED IN ORDERING PARAGRAPH 5 OF DECISION 87-01-007.

(Advice Letter No. 255-E, filed March 26, 1987.)

SUMMARY

By Advice Letter No. 255-E, filed March 26, 1987, CPN requests authorization to revise electric rates in its Lassen District to compensate for operational and financial attrition as provided in Ordering Paragraph 5 of Decision (D.)87-01-007. CPN requests an increase of \$322,846 in annual revenues effective June 1, 1987. By this Resolution, CPN is authorized a lesser increase of \$270,695 in annual revenues.

BACKGROUND

1. D.87-01-007 authorized CPN to revise electric rates in its Lassen District by advice letter filing, to compensate for operational and financial attrition in 1987. On March 26, 1987 CPN filed Advice Letter No. 255-E, requesting an attrition increase.
2. 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.
3. 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.
4. In D.87-01-007 the Commission adopted the test year 1986 and attrition year 1987 capital structures and rates of return shown in Attachment A to this Resolution.
5. D.87-01-007 used estimates of 4.6% escalation for labor expenses and 1.3% escalation for non-labor expenses for attrition year 1987.

6. Ordering Paragraph 1 of D.87-_____ requires CPN to reduce its residential Tier II rate by \$0.00068 per kilowatt-hour to compensate for baseline allowances for second homes.

DISCUSSION

7. CPN requests an attrition increase of \$322,846. The Evaluation and Compliance Division has reviewed the request and recommends an attrition increase of \$270,695.

8. The difference of \$52,151 is due to CPN's application of the 1987 lowered cost of capital to the weighted average plant additions of \$998,417 in attrition year 1987 instead of the entire rate base of \$13,597,307 for attrition year 1987. CPN should have applied the lower cost of capital to the entire rate base.

9. In Advice Letter No. 255-E CPN did not update the estimates in D.87-01-007 for labor and non-labor escalation factors. In the future CPN should use updated estimates for escalation factors, but the original estimates are reasonable for attrition year 1987.

10. CPN's request includes income taxes based on 1986 tax rates. 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 in 1987 are subject to refund pending outcome of that proceeding.

THEREFORE:

1. CP National Corporation is authorized to increase the authorized annual electric revenues for its Lassen District by \$270,695 to compensate for operational and financial attrition effective coincident with the rate change authorized below.

2. Within five (5) days of the effective date of this Resolution, CP National Corporation may file revised tariff schedules reflecting in rates both this increase and the reduction of \$0.00068 per kilowatt-hour in its residential Tier II rate per Ordering Paragraph 1 of Decision 87-_____. Rates shall be calculated on a system average percent change basis. The revised tariffs shall become effective three days after the date of filing.

3. CP National shall file Advice Letter C-255-E-Supplemental reflecting the rates authorized in this Resolution outlined in Ordering Paragraph 1 and 2 above.

4. The tariff sheets shall be marked to show that they are authorized for filing by Commission Resolution E-3042. This Resolution is effective today.

I certify that this Resolution was adopted by the California Public Utilities Commission at its regular meeting on July 8, 1987. The following Commissioners approved it:



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

Executive Director

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Attachment A

CP NATIONAL CORPORATION
ATTRITION YEAR 1987 CHANGES IN COST OF CAPITAL

	Capital Ratio	Cost of Capital	Weighted Cost of Capital
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Test Year 1986 (D.87-01-007)			

Long-Term debt	47.25%	11.12%	5.25%
Preferred Stock	1.25	7.42	0.09
Common Equity	51.50	13.75	7.08
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Total	100.00%		12.42%
Attrition Year 1987			

Long-Term debt	47.25%	10.38%	4.90%
Preferred Stock	1.25	5.24	0.07
Common Equity	51.50	13.75	7.08
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Total	100.00%		12.05%

Resolution E-3042
Attachment B

CP NATIONAL CORPORATION
ATTRITION ALLOWANCE SUMMARY FOR 1987

	<u>Requested</u>	<u>Adopted</u>
Labor escalation	\$ 25,044	\$ 25,044
Non-labor escalation	9,462	9,462
Payroll taxes	2,919	2,919
Rate Base and cost of capital	278,945	222,408
Franchise Fees & uncollectibles	6,476	5,431
	<u>\$322,846</u>	<u>\$270,695</u>