

RETURN TO ENERGY BRANCH
ROOM 3102

E-7

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:

	<u>Amended Request</u>	<u>Adopted</u>
Operations & Maintenance	\$ 200,000	\$ 200,000
Capital Related Items	<u>114,000</u>	<u>(403,200)</u>
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



Executive Director

Sierra Pacific Power Company
1988 Attrition Allowance

Present Authorized Capital Structure
(Attrition Year 1987)

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

Requested Capital Structure
(Attrition Year 1988)

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

Adopted Capital Structure
(Attrition Year 1988)

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

Sierra Pacific Power Company
1988 Attrition Allowance

Revenue Requirements
(\$000)

	<u>Requested</u>	<u>Amended</u>	<u>Adopted</u>
Operational Attrition			
Labor Inflation	\$ 449	\$ 75	\$ 75
Non-Labor Inflation	<u>131</u>	<u>125</u>	<u>125</u>
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	<u>(27)</u>	<u>152</u>	<u>(355.8)</u>
Total Capital Related Items	\$ <u>(278)</u>	\$ <u>114</u>	\$ <u>(403.2)</u>
Total Revenue Change	\$ 302	\$ 314	\$ (203.2)
Tax Reform Act of 1986	\$ 0	\$ 0	\$ 0
Rate Base	\$ 73,324	\$ 74,768	\$ 74,768