

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION

RESOLUTION E-3344
October 20, 1993

R E S O L U T I O N

RESOLUTION E-3344. SIERRA PACIFIC POWER COMPANY REQUEST AUTHORITY TO RECORD IN A MEMORANDUM ACCOUNT THE INCREMENTAL REVENUE REQUIREMENT EFFECT ASSOCIATED WITH CHANGES IN THEIR FEDERAL AND STATE TAX LIABILITY RESULTING FROM THE 1993 TAX REFORM MEASURES.

BY ADVICE LETTERS 230-E, FILED ON SEPTEMBER 27, 1993.

SUMMARY

1. Sierra Pacific Power Company (Sierra Pacific) seeks Commission authorization to create a tax memorandum account (TMA) and for permission to record in it the incremental revenue requirement effect due to changes in tax liabilities resulting from 1993 federal tax reform measures.
2. This resolution grants Sierra Pacific's request for creation of a TMA.

BACKGROUND

1. In his State of the Union address on February 17, 1993, President Clinton identified a number of proposed tax changes that would directly increase the utilities' federal tax liability. Examples are: (1) an increase in the corporate tax rate for businesses with taxable income greater than \$10 million per year, (2) a reduction in the deductibility of business entertainment expenses, and (3) a broad-based tax on energy, such as one based on British thermal unit usage.
2. Resolution E-3331, dated July 21, 1993, granted Pacific Gas and Electric Company, San Diego Gas and Electric Company, Southern California Gas Company, Southern California Edison Company and Others authority to have a TMA and to book the incremental revenue requirement effect associated with its utility operations.
3. The Omnibus Budget Reconciliation Act of 1993 was signed into law on August 10, 1993.
4. Accordingly, Sierra Pacific request the Commission to authorize a tax memorandum account to record in its TMA the

incremental revenue requirement effect associated with its utility operations consistent with Resolution E-3331.

NOTICE

1. Public notification of Sierra Pacific's advice letter was made through mailing copies of the advice letters to other utilities, governmental agencies, and to all interested parties who requested such information. Notice of Sierra Pacific's advice letter was published in the Commission Calendar.

PROTESTS

1. No protests were made on Sierra Pacific's request for a TMA.

DISCUSSION

1. When Sierra Pacific's rates were last set, the Commission used the then current tax laws in determining their revenue requirements. If Sierra Pacific is unable to recover any additional taxes imposed by the 1993 federal tax reform legislation this will likely affect the rate of return it earns.

2. Therefore, CACD recommends that the Commission authorize Sierra Pacific to establish a TMA and record in this TMA only the incremental revenue requirement effect due to changes in federal and state tax liabilities and other expenses resulting from the 1993 federal tax reform legislation.

3. By authorizing Sierra Pacific to establish this TMA this Commission is not guaranteeing that it will receive the incremental revenue requirements recorded in the TMA. Sierra Pacific will have to support every dollar for which it will seek recovery.

4. The amounts to be recorded in the TMA should be based on the ratemaking figures (e.g. revenues, profits, and tax deductions and credits) used to set Sierra Pacific's rates in its most recent rate-setting proceedings, so long as such figures are available. More specifically, in calculating the federal and state income tax liability portion, Sierra Pacific should record the incremental revenue requirement due to a change in its tax rate and changes to the tax deductions and credits last allowed in setting its rates. Any and all attempts to true-up ratemaking tax levels authorized for collection in rates to actual tax expense, for any reason other than the reflection of the 1993 federal tax reform legislation, should be prohibited.

5. This TMA should not only include the cost increases due to the new federal legislation, but also all cost decreases caused by the 1993 federal tax reform legislation.

6. Sierra Pacific will be responsible for maintaining the supporting documents for all entries made into its TMA, and it

will be the responsibility of Sierra Pacific to support all incremental revenue requirements that it will seek recovery for in proceedings before this Commission. This includes showing that it is reasonable to recover any additional revenue requirement from the utility's ratepayers. Today's resolution simply establishes a mechanism to enable Sierra Pacific to seek recovery of the amounts it books in its TMA.

7. CACD feels that Sierra Pacific should be responsible for the carrying costs associated with the balance recorded in its TMA. The risks of increased costs that may be caused by the 1993 federal tax reform legislation should be shared between the utilities' shareholders and their ratepayers. Therefore, CACD recommends that Sierra Pacific not be authorized to include interest on the outstanding balances recorded in its TMA.

8. We acknowledge that in Resolution E-3331 we stated that if 1993 federal tax reform legislation was signed into law prior to the effective date of our resolution authorizing the establishment of Tax Memorandum Accounts, only the incremental revenue requirement relating to the period after the effective date of the resolution may be booked into the TMAs. Resolution E-3331 was issued July 21, 1993, prior the date the Omnibus Budget Reconciliation Act of 1993, was signed into law (August 10, 1993).

9. Sierra Pacific filed Advice Letter 230-E on September 27, 1993, very soon after the budget bill was signed into law. We take this opportunity to change the policy we established in Resolution E-3331, because fairness demands that Sierra Pacific be entitled to book into a TMA all incremental revenue requirement effects that result from the 1993 federal tax reform legislation.

10. Recovery of the amounts booked into this TMA shall be subject to all conditions imposed on utilities whose TMAs were authorized in 3331.

FINDINGS

1. By authorizing a TMA for Sierra Pacific the Commission will enable it to seek future recovery of the incremental revenue requirement effects of the 1993 federal tax reform legislation.

2. The reasonableness of whether any or all of the amounts recorded in the TMA should be recovered from ratepayers will be decided later.

3. Sierra Pacific will be allowed to record in its TMA the incremental revenue requirement effect due to changes in federal and state tax liabilities and other expenses that result from the 1993 federal tax reform legislation.

4. Sierra Pacific shall include in its TMA not only its increases in costs, but also any decreases in costs as well.

5. Sierra Pacific should be allowed to include in its TMA only the incremental revenue requirement effects due to changes in federal and state tax liabilities and other expenses that result from the 1993 federal tax reform legislation.

6. It will be the responsibility of Sierra Pacific to maintain support for each amount recorded in its TMA.

7. Sierra Pacific will not be allowed to accrue interest on the balances recorded in its TMA.

8. Prior to recovery of any cost included in the TMA, Sierra Pacific will have to seek Commission authorization to recover these costs, and will have the burden of proof in showing that recovery of these costs is reasonable. Recovery of these costs may be requested in either:

- A. A separate application specifically for that purpose;
- B. An Energy Cost Adjustment Clause proceeding;
- C. A Biennial (or other) Cost Allocation Proceeding; or,
- D. Another rate-setting proceeding.

THEREFORE, IT IS ORDERED that:

1. Sierra Pacific Power Company is authorized to establish a tax memorandum account, to be known as the 1993 Federal Tax Reform Legislation Memorandum Account, consistent with the findings in this resolution.

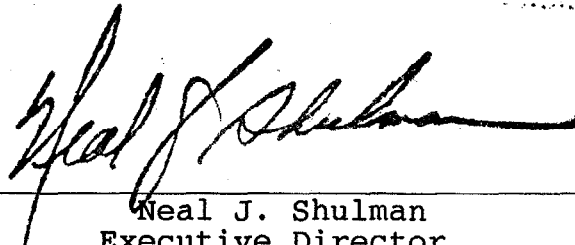
2. Sierra Pacific Power Company shall file revised tariff sheets, consistent with Ordering Paragraph 1 of this resolution, within five working days.

3. Sierra Pacific's 1993 Federal Tax Reform Legislation Memorandum Accounts shall be effective on the date of its revised filing.

October 20, 1993

4. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 20, 1993. The following Commissioners approved it:



Neal J. Shulman
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
Commissioners

I dissent.

/s/ JESSIE J. KNIGHT Jr.
Commissioner